



# 中国银河证券股份有限公司

## CHINA GALAXY SECURITIES CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 06881

## Interim Report 2017



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## DEFINITIONS

“A Share(s)”	domestic share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the SSE and traded in Renminbi
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“Board” or “Board of Directors”	the board of Directors of the Company
“bp”	unit of measurement for the change in interest rate of bonds and notes, one bp equals to 1% of a percentage point
“CG Code”	Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Stock Exchange Listing Rules
“China” or “PRC”	the Peoples’ Republic of China excluding, for the purpose of this interim report, Hong Kong, the Macau Special Administrative Region and Taiwan region
“Company”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司), a joint stock limited company incorporated in the PRC on 26 January 2007, H Shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 06881), and A Shares of which are listed on the SSE (Stock Code: 601881)
“Company Law”	the Company Law of the PRC
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of the Company
“End of the Reporting Period”	30 June 2017
“ETF”	exchange-traded funds
“Futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce clients to futures companies to provide futures brokerage and other related services
“Galaxy Capital”	Galaxy Capital Management Company Limited (銀河創新資本管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Financial Holdings”	China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司), which holds approximately 50.91% interests of the Company and is the controlling shareholder of the Company
“Galaxy Fund”	Galaxy Fund Management Company Limited (銀河基金管理有限公司), owned as to 50% by Galaxy Financial Holdings and a non-wholly owned subsidiary of Galaxy Financial Holdings

## DEFINITIONS

“Galaxy Futures”	Galaxy Futures Company Limited (銀河期貨有限公司), owned as to approximately 83.32% by the Company and a non-wholly owned subsidiary of the Company
“Galaxy International Holdings”	China Galaxy International Financial Holdings Company Limited (中國銀河國際金融控股有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Jinhui”	Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Galaxy Yuanhui Investment”	Galaxy Yuanhui Investment Co., Ltd. (銀河源匯投資有限公司), owned as to 100% by the Company and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and subscribed for and traded in HK dollars
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huijin”	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), which currently holds an equity interest of approximately 78.57% of Galaxy Financial Holdings
“IPO”	initial public offering
“margin and securities refinancing business”	a business in which securities firms can act as intermediaries to borrow funds or securities from China Securities Finance Corporation Limited and lend such funds and securities to their clients
“MOF bonds”	debt instruments issued by the Ministry of Finance of the PRC on behalf of the PRC government
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 to the Stock Exchange Listing Rules
“New OTC Board”	National Equities Exchange and Quotations for medium and small-sized enterprises
“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	the six-month period ended 30 June 2017

## DEFINITIONS

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China
“RQFII”	Renminbi Qualified Foreign Institutional Investor, a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“SSE”	the Shanghai Stock Exchange (上海證券交易所)
“SSE Composite Index”	SSE Composite Index
“SSE Listing Rules”	the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (as amended from time to time)
“Stock Exchange Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZCI”	the Shenzhen Component Index
“SZSE”	the Shenzhen Stock Exchange (深圳證券交易所)
“US\$” or “U.S. dollars” or “USD”	United States dollars, the lawful currency of the United States
“VaR”	value at risk

*This interim report has been prepared in Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.*

# COMPANY INFORMATION

## NAME OF THE COMPANY

Registered Chinese Name: 中國銀河證券股份有限公司  
Registered English Name: China Galaxy Securities  
Co., Ltd.

## BOARD SECRETARY

Mr. Wu Chengming

## JOINT COMPANY SECRETARIES

Mr. Wu Chengming, Ms. Mok Ming Wai

## AUTHORIZED REPRESENTATIVES

Mr. Wu Chengming, Ms. Mok Ming Wai

## HEADQUARTERS IN THE PRC

Registered address: 2-6/F, Tower C, Corporate Square,  
35 Finance Street, Xicheng District,  
Beijing, PRC, 100033

Office address: 2-6/F, Tower C, Corporate Square,  
35 Finance Street, Xicheng District,  
Beijing, PRC, 100033

Website of the Company: [www.chinastock.com.cn](http://www.chinastock.com.cn)

Email address: [yhgf@chinastock.com.cn](mailto:yhgf@chinastock.com.cn)

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3501-07, 3513-14, 35/F, Cosco Tower,  
183 Queen's Road Central, Sheung Wan, Hong Kong

## AUDITORS

Domestic: Deloitte Touche Tohmatsu Certified Public  
Accountants LLP

International: Deloitte Touche Tohmatsu

## HONG KONG LEGAL ADVISOR

Latham & Watkins

## STOCK CODE

Hong Kong Stock Exchange  
H Share Stock Code: 06881

SSE

A Share Stock Code: 601881

## SHARE REGISTRARS

Share Registrar for A Shares: China Securities Depository and  
Clearing Corporation Limited  
Share Registrar for H Shares: Computershare Hong Kong Investor  
Services Limited

## QUALIFICATION OF INDIVIDUAL BUSINESS OF THE COMPANY

- (1) Qualification for warrant clearance business
- (2) Qualified warrant dealer
- (3) Qualified primary dealer for ETF
- (4) Qualification for open-ended securities investment funds agency sales business
- (5) Clearing participant of China Securities Depository and Clearing Company Limited
- (6) Qualification for online securities entrustment business
- (7) Member of SSE
- (8) Member of SZSE
- (9) Qualification as registered sponsor
- (10) Qualification for offering intermediary services for futures companies
- (11) Qualified inquirer and place for offline placements
- (12) Qualified block-trader of SZSE
- (13) Qualified block-trader of SSE
- (14) Qualified electronic trading platform for SSE for offline placements
- (15) Qualified electronic trading platform for SZSE for offline placements
- (16) Primary Dealer at SSE
- (17) Qualified block-trader investor of SSE
- (18) Qualification for national inter-bank lending business
- (19) Qualification for pilot direct investment business
- (20) Qualification for margin financing and securities lending business

## COMPANY INFORMATION

- (21) Qualification for stock-index futures trading business
- (22) Qualification for pilot securities-based lending business
- (23) Qualification for pilot dealer-quoted bond repurchase business
- (24) Member of the China Securities Association in fund evaluation
- (25) Qualification for offering comprehensive services for insurance institutional investors
- (26) Qualification for engagement in foreign securities investment and management businesses as QDII
- (27) Qualification for pilot business of private placement of bonds for small and medium-sized enterprises
- (28) Qualification for offering debt financing instruments for non-financial companies as a lead underwriter
- (29) Qualification for financial products agency sales business
- (30) Qualification for business engagement with special institutional clients of insurance institutions
- (31) Authorised for securities-based lending transactions (approved by the SZSE)
- (32) Qualification for equity swap services
- (33) Qualification for OTC trading
- (34) Qualification for pilot short selling business
- (35) Qualification for stock lending business under margin and securities refinancing
- (36) Qualification for pilot business engagement of comprehensive custodian services for private fund
- (37) Qualified for chief agency broker in national share transfer system
- (38) Qualification for engagement in interest swap business
- (39) Authorised for dealer-quoted securities repurchase business transactions (approved by the SSE)
- (40) Authorised for dealer-quoted securities repurchase transactions (approved by the SZSE)
- (41) Authorised for dealer-quoted repurchase transactions
- (42) Qualification for digital certificate authentication agency business
- (43) Qualification for engagement in relevant businesses at Zhejiang Equities Exchange Centre
- (44) Qualification for pilot margin and securities refinancing business
- (45) Qualification for pilot securities-based repurchase transactions business (approved by the SSE)
- (46) Qualification for pilot consumption payment service for clients with securities funds
- (47) Qualification of concurrent-business insurance agency
- (48) Qualification for pilot Internet securities business
- (49) Qualification for participation in simulated options trading by proprietary trading business (approved by the SSE)
- (50) Qualification for pilot OTC income certificates business
- (51) Qualification for securities investment fund custodian
- (52) Qualification for market making business for nationwide shares transfer system
- (53) Authorised for Hong Kong Stock Connect business transactions
- (54) Qualification for gold spot contract agency business
- (55) Membership of Shanghai Gold Exchange
- (56) Qualified of participant of quotation and service system for inter-institutional private equity products
- (57) Qualified of stock options trading participant of the SSE
- (58) Qualification for options clearing business
- (59) Innovative scheme for account opening through WeChat
- (60) Qualification for engagement of debt financing instruments quotation business for non-financial corporations
- (61) Membership of Asset Management Association of China
- (62) Membership of China Futures Association
- (63) Membership of Insurance Asset Management Association of China
- (64) Filing qualification as outsourced services provider for private investment funds
- (65) Authorised for Hong Kong Stock Connect business transactions under the Shenzhen-Hong Kong Stock Connect
- (66) Qualification for sales of precious metal products

## FINANCIAL HIGHLIGHTS

(Accounting data and financial indicators contained in this report are prepared in accordance with IFRSs)

### MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

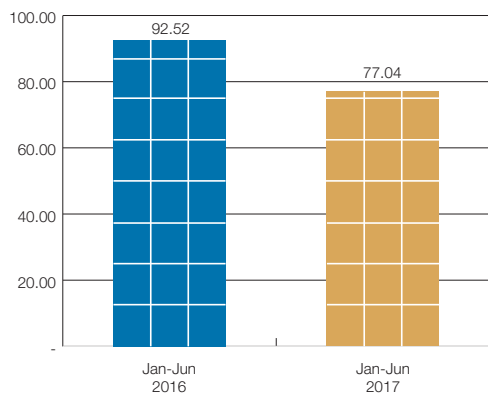
Items	January - June 2017	January - June 2016	Increase/ decrease from the same period of last year
<b>Operating results (RMB'000)</b>			
Revenue and other income	7,704,394	9,251,528	-16.72%
Profit before income tax	2,617,198	2,935,550	-10.84%
Profit for the period – attributable to owners of the Company	2,112,212	2,255,461	-6.35%
Net cash from/(used in) operating activities	(7,364,592)	23,316,510	N/A
<b>Earnings per share (RMB per share)</b>			
Basic earnings per share	0.21	0.24	-12.50%
<b>Profitability ratio</b>			
Weighted average return on net assets	3.38%	3.93%	decreased by 0.55 percentage point
<hr/>			
Items	As at 30 June 2017	As at 31 December 2016	Increase/ decrease from the end of last year
<b>Scale indicators (RMB'000)</b>			
Total assets	229,445,925	245,880,520	-6.68%
Total liabilities	166,420,469	187,526,621	-11.26%
Accounts payable to brokerage clients	74,613,679	90,404,209	-17.47%
Equity attributable to owners of the Company	62,641,100	57,988,546	8.02%
<b>Total share capital (in thousand shares)</b>	<b>10,137,259</b>	9,537,259	6.29%
<b>Net assets value per share attributable to owners of the Company (RMB per share)</b>			
<b>Gearing ratio <sup>1</sup></b>	<b>59.29%</b>	62.47%	1.64% decreased by 3.18 percentage points

<sup>1</sup> Gearing ratio = (total liabilities—accounts payable to brokerage clients)/(total assets—accounts payable to brokerage clients)

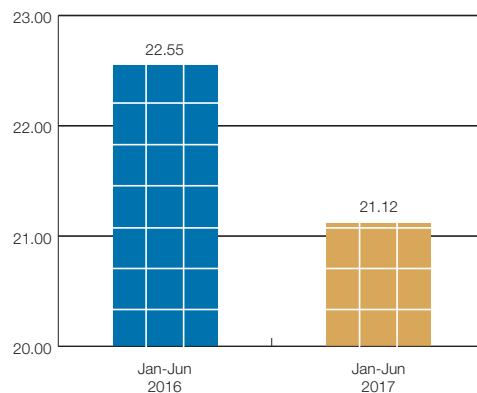


# FINANCIAL HIGHLIGHTS

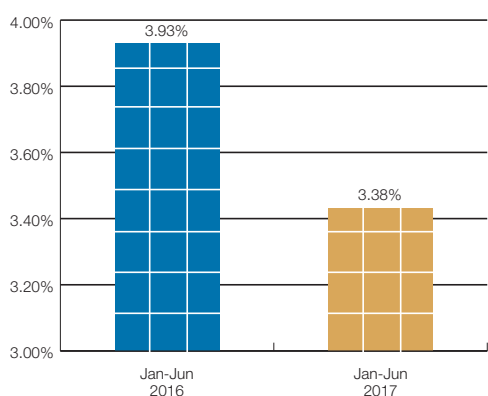
Revenue and other income  
(RMB100 million)



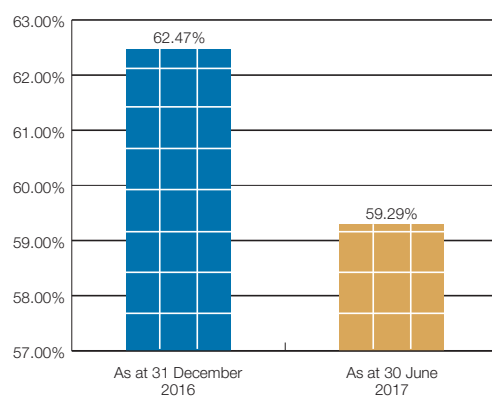
Profit for the period –  
attributable to owners of the Company  
(RMB100 million)



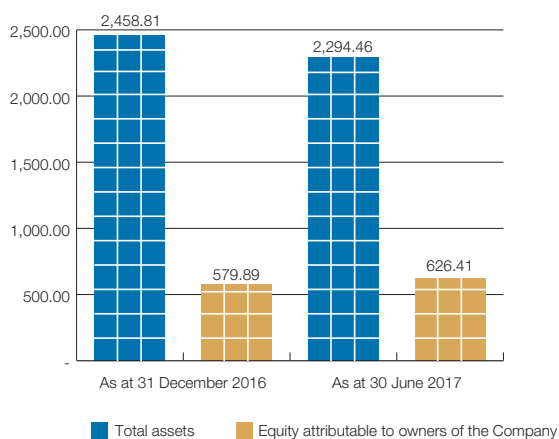
Weighted average return on net assets (%)



Gearing ratio (%)



Scale indicators (RMB100 million)



## FINANCIAL HIGHLIGHTS

### **Description of differences on figures by domestic and foreign accounting standards:**

There was no difference in the Company's net profits for January to June 2017 and January to June 2016 shown in the combined financial statements prepared under International Financial Reporting Standards and China Accounting Standards for Business Enterprises and no difference in net assets as at 30 June 2017 and as at 31 December 2016 shown in the combined financial statements prepared under both standards.

# COMPANY BUSINESS OVERVIEW

## DESCRIPTION OF PRINCIPAL BUSINESSES, OPERATIONAL MODEL AND INDUSTRY IN WHICH THE COMPANY OPERATES DURING THE REPORTING PERIOD

### (I) Primary business types of the Group

The Group is positioned as a leading comprehensive financial services provider in the securities industry in China and provides comprehensive securities services, including brokerage, sales and trading, investment banking, investment management and overseas business.

The principal businesses of the Group include:

<b>Brokerage, Sales and Trading</b>	<b>Investment Banking</b>	<b>Investment Management</b>	<b>Overseas Business</b>
Brokerage and wealth management	Equity financing	Asset management	Brokerage and sales
Institutional sales and investment research	Debt financing	Private equity investment	Investment banking
Margin financing and securities lending and stocks pledge	Financial advisory	Alternative investment	Investment management
Proprietary trading and other securities trading services			Asset management

#### **Brokerage, Sales and Trading**

1. Brokerage and wealth management: The Group executes trades on behalf of clients in stocks, funds, bonds, derivatives and futures, and provides comprehensive wealth management services to its clients.
2. Institutional sales and investment research: The Group markets and sells securities products and services to institutional investor clients and provides professional research services to facilitate their investment decisions.
3. Margin financing and securities lending and stocks pledge: The Group provides guaranteed and collateralized margin financing and securities lending services, which provide financial leverage for its clients to meet their financing demands and vitalize their equity assets.
4. Proprietary trading and other securities trading services: The Group engages in proprietary trading and provides other securities trading services to enhance liquidity for clients and accommodates its clients' investment and financing needs.

# COMPANY BUSINESS OVERVIEW

## **Investment Banking**

The Group charges underwriting commissions and sponsorship and advisory fees through underwriting stocks and bonds and providing financial advisory services.

## **Investment Management**

The Group charges management and advisory fees through providing asset management and private equity investment management services and obtains investment income through conducting private equity investment and alternative investment.

## **Overseas Business**

The Group provides brokerage and sales, investment banking, research and asset management services to global institutional clients, corporate clients and retail customers through Galaxy International Holdings, which is set up in Hong Kong, as an overseas business platform.

During the Reporting Period, there was no significant change to the principal businesses of the Company.

## **(II) Operational model of the Group**

The operational model of the Company is as follows: It focuses on the leading big transaction as the core and the investment banking and the asset management as two wings to achieve the coordinated and balanced development of all businesses, namely, the “One Core, Two Wings and Coordinated Development”.

The leading big transaction not only includes the leading traditional brokerage business but also the leading margin financing and securities lending business, institutional sales and trading business, investment advisory business, sale of financial products and futures brokerage business, international brokerage business as well as the trading of various innovative financial products driven by the brokerage business.

The coordinated and balanced development includes the coordinated and balanced development of various businesses under the big transaction as well as the coordinated and balanced development among major trading, investment banking, asset management, proprietary investment and other principal businesses.

The Company adhered to the operational model of “One Core, Two Wings and Coordinated Development” to follow the innovation and development of the industry, give full play to the advantages of the Company and shore up the weaknesses with strength to achieve the balanced development of principal businesses and become a leading comprehensive securities company in the industry as soon as possible.

During the Reporting Period, in accordance with the guidance of operation and management for the year 2017, the Company improved the functions of four business committees, namely, brokerage management committee, investment banking business management committee, asset management business committee and investment management committee.

# COMPANY BUSINESS OVERVIEW

## (III) Development characteristics of the industry of the Group

### 1. Economic Environment

In 2017, the PRC has been exposed to the complex and ever-changing external environment. Although major developed economies, such as USA, Europe and Japan, have shown signs of recovery to different extents, the world financial market is still facing great uncertainties given the weak inflation of countries and accelerated pace of rate hike and balance sheet reduction of the US Federal Reserve. Domestically, despite that the economy remained stable with some progress in short term, there might be greater pressure on such stable growth in the second half of the year as the “inventories replenishment” is progressing towards the final stage and the impact of austerity measures on the real property market is emerging. On the policy side, the supply-side structural reform will move forward, the monetary policy will remain prudent and moderate, and the financial policy will play a more important role for facilitating stable economic growth. The further enhancement of the importance of prevention against financial risk and the tightened regulation of the financial industry are intended to control the leverage ratio of the industry, restrain the formation of asset bubbles and channel funds to the real economy.

### 2. Market Conditions

In the first half of 2017, the PRC stock market fluctuated in general and the bond market fell after a surge. In the stock market, the main board showed a slow and fluctuating uptrend while the GEM board stayed downturn. SSE Composite Index, SZCI and ChiNext Price Index recorded an increase of 2.86% and 3.46% and a decrease of -7.34% during the Reporting Period. In terms of trading, the total trading turnover of A Shares was RMB53.68 trillion during the Reporting Period, a decrease of 15.57% year-on-year. For equity financing, listed companies actually raised RMB877.376 billion through IPO, additional offering and placing during the Reporting Period, representing a decrease of 12.12% year-on-year. For margin financing and securities lending, the balance of margin financing and securities lending had reached its highest point of RMB940.763 billion in April 2017 and was RMB879.862 billion at the End of the Reporting Period, representing an increase of 3.08% year-on-year. For the bond market, the yield to maturity of inter-bank 10-year fixed rate MOF bonds in the secondary market increased with fluctuation and grew by 46.29 bps during the Reporting Period, closing at 3.5663%. During the Reporting Period, the number of newly issued bonds in the primary market was 16,684, with the principal amounts of RMB18.05 trillion. As at the End of the Reporting Period, there were a total of 33,478 bonds in issue with balances of RMB68.66 trillion, representing a year-on-year increase of 32.76% and 19.20%, respectively.

### 3. Industrial Situation

According to the statistics of the Securities Association of China (SAC), as at 30 June 2017, total assets, net assets and net capital of the PRC securities industry amounted to RMB5.81 trillion, RMB1.75 trillion and RMB1.50 trillion, respectively. In the first half of 2017, A Shares market fluctuated in general with slightly decrease in turnover. Commission rate continued to decrease. The PRC securities industry realized operating income of RMB143.696 billion and net profits of RMB55.258 billion, representing a year-on-year decrease of 8.5% and 11.5%, respectively.

## (IV) The position of the Group in the industry

The Group is a leading comprehensive financial service provider in the securities industry in China. Since its incorporation, the Group has maintained strong comprehensive competitiveness, with the Company remaining as a first tier securities company in the industry in terms of capital scale, profitability, business strength and risk management capability. According to the data in the financial statements of securities company's parent company published by the SAC, in the first half of 2017, the Company ranked seventh in the industry in terms of operating income and net profit, and ranked eighth, seventh, and fifth in the industry in terms of total assets, net assets and net capital, respectively.

# COMPANY BUSINESS OVERVIEW

## SIGNIFICANT CHANGES TO MAJOR ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

As at 30 June 2017, the Group's total assets amounted to RMB229.446 billion, representing a decrease of 6.68% as compared with the end of 2016. Among them, the monetary funds were RMB63.569 billion, down 7.96% from the end of last year, which was mainly due to the reduction of trading volume in the SSE and the SZSE in the first half of 2017 and a decrease in customer funds; clear settlement funds were RMB14.388 billion, representing a decrease of 43.27% from the end of last year, which was mainly due to a decrease in provisions of clients; financing funds were RMB49.753 billion, down 10.32% from the end of last year, which was mainly due to a decrease in the scale of financing funds; financial assets at fair value through profit and loss amounted to RMB27.558 billion, representing a decrease of 6.15% as compared with the end of last year, which was mainly due to a decrease in the scale of liquidity management; financial assets purchased under resale agreements were RMB21.739 billion, up 67.15% as compared with the end of last year, which was mainly due to an increase in the scale of the Group's dealer-quoted securities repurchase transactions; available-for-sale financial assets were RMB34.380 billion, representing a decrease of 5.87% as compared with the end of last year, which was mainly due to the adjustment of business scale by the Group according to the market environment. In particular, overseas assets amounted to RMB5.665 billion, representing 2.47% of total assets, which had no material change.

### Analysis on core competitiveness during the Reporting Period

#### (I) Brokerage business with significant scale advantages

The Company has a leading market position in its brokerage business. During the Reporting Period and according to the unaudited data of the SAC, the net income of the Company from the securities brokerage business ranked second in the industry in terms of individual securities companies with a market share of 5.26%. According to the data of the SSE and the SZSE, the total trading volume of stock and funds of the Company ranked fourth in the industry with a market share of 4.61%. As at the End of the Reporting Period, the balance of margin financing and securities lending of the Company ranked seventh in the industry with a market share of 5.39%. As at the End of the Reporting Period and according to the data in the financial statements of securities company's parent company published by the SAC, the Company ranked second in the industry in terms of aggregate market value of securities in its client accounts, which amounted to RMB2.75 trillion and represented a market share of 7.30%. The Company ranked sixth in terms of the balance of clients' deposit margin account, which amounted to RMB51.488 billion and represented a market share of 4.52%. The huge client base and client assets of the Company provide significant growth potential for its businesses, and become a powerful driver for the development and innovation of its businesses such as margin financing and securities lending, capital-based intermediary bulk trades, institutional sales and cash management.

#### (II) Having the largest channel network currently in operation in the industry

The Company currently has 427 securities brokerage branches in central cities in 31 provinces, autonomous regions and municipalities across China, covering developed regions and regions with development potential. Currently, it is the securities company with the largest number of branches in China. Its overseas branches (including Hong Kong) and 26 futures brokerage branches provide clients with extended services. A reasonable strategic layout helps the Company obtain high-end clients in developed regions, benefit from the rapid economic growth and urbanization in developing regions so as to grasp overseas business opportunities. At the same time, it can provide clients with convenient local services and help build brand advantages, enhance the sense of belonging and trust of clients and promote coordinated marketing opportunities. To enhance its branch network's marketing capabilities, the Company also fully utilizes various information technologies such as Internet, e-mails, mobile terminals, text messages, and call centers to create a multi-channel marketing service and trading system.

#### (III) Possessing one of the largest client bases in the industry

The Company has a large, stable and ever-growing client base. As at the End of the Reporting Period, the Company had 9,340,000 brokerage clients, representing an increase of 570,000 clients or 6.50% compared with 2016. The investment banking business has served over 350 corporate clients. Benefitted from its client base, the Company has significant potential for cross-selling among its business lines, which helps it rapidly capture opportunities for the development of new businesses.

## COMPANY BUSINESS OVERVIEW

### **(IV) Leading investment banking expertise**

The investment banking business system of the Company has been improving. For the equity financing business, the Company has earned the trust and recognition from clients for its consistently high-quality and distinctive services. For the bond financing business, based on its experience in the relevant industries and products as well as its in-depth understanding of investors' needs, the Company has developed professional pricing capability.

### **(V) Unique advantages from its history, brand and shareholders**

The history of its securities brokerage and investment banking businesses can be traced back to the early 1990s from the former securities divisions of major financial institutions in the PRC, namely, Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, China Life Insurance and China Economic Development Co., which were subsequently consolidated into China Galaxy Securities Company Limited. "China Galaxy Securities" gradually became a well-known brand in the securities industry. After the establishment of the Company in 2007, it acquired the securities brokerage and investment banking businesses, as well as the related assets from China Galaxy Securities Company Limited. Its controlling shareholder is Galaxy Financial Holdings, and its de facto controller is Huijin, a wholly state-owned company authorized by the State Council to make equity investments in major state-owned financial enterprises. The history, brand and shareholder background of the Company have enhanced its clients' confidence in it, and enabled it to consolidate and expand its client base as well as capture more business opportunities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. OVERALL OPERATION OF THE COMPANY

In the first half of 2017, the regulatory environment of the PRC securities industry continued to tighten, with the industry regulations and business rules being constantly improved. The turnover of A Shares slightly decreased and brokerage commission rate kept on decreasing, which created larger pressure for the business operation of the Company. The Company stuck to the bottom line of no systemic risk, firmly promoted the implementation of strategy, endeavored to advance the Company's operational system adjustment, actively improved income structure, completed the listing of A Shares, made significant progress in overseas acquisition and merger, and proceeded its operation and management in an orderly manner. As at the End of the Reporting Period, the Group's total assets amounted to RMB229.446 billion and equity attributable to owners of the Company amounted to RMB62.641 billion. During the Reporting Period, the Group achieved income and other revenue of RMB7.704 billion, representing a year-on-year decrease of 16.72%; net profit attributable to owners of the Company amounted to RMB2.112 billion, representing a year-on-year decrease of 6.35%; and weighted average return on net assets was 3.38%, representing a year-on-year decrease of 0.55 percentage point.

## II. ANALYSIS OF MAJOR BUSINESS

The business of the Group includes brokerage, sales and trading business, investment banking business, investment management business and overseas business.

### (i) Brokerage, sales and trading business

During the Reporting Period, the revenue and other income from the securities brokerage business of the Group amounted to RMB5.254 billion, representing a decrease of 18.93% as compared with the same period of last year, which was mainly due to the decrease in trading volume of A Shares market and the decline in brokerage commission rate.

#### 1. Securities brokerage, sales and trading business

Under the guidance of its overall strategy, the Company consolidated its advantage in traditional brokerage business, focused on the development of account opening business, financial products selling business and share pledge business, and strived to enhance customer service level so as to build an one-stop financial service platform. To further extend and consolidate the client base, the Company organized a marketing campaign called "Celebrating the Listing of A Shares • Opening Account with Reward". During the period of such campaign, the Company attracted more than 400,000 new customers, which broke its historical record of market share in the account opening market to 8.4%. Assets of new clients amounted to RMB21.0 billion. The Company achieved its objective of breaking both records in terms of scale and income and effectively consolidated its market position in the brokerage business. In June 2017, the Company continued the marketing work for monetary funds, and completed the sales of RMB14.042 billion within two weeks, which made a new record for the Company's sales of monetary funds. During the Reporting Period, the accumulative sales amount of financial products by the Company (excluding cash products) amounted to RMB43.478 billion. The Company made efforts in its futures IB business to satisfy the demands of clients for investment in futures market by providing comprehensive and personalized futures investment service for clients. As at the End of the Reporting Period, the Company had a total of 137 securities branches with qualifications to conduct futures IB business, and there were 30,500 existing clients of the futures IB business with clients' balances amounting to RMB2.103 billion at the End of the Reporting Period. The development of the stock option brokerage business of the Company was stable with some progress. As at the End of the Reporting Period, the number of the existing clients of the stock option brokerage business was 21,416, representing a year-on-year increase of 244.59% and a market share of 8.94%. Trading volume of the Company's stock option brokerage business amounted to 2.5148 million, representing a year-on-year increase of 176.75% and a market share of 3.207%. Clients' balances amounted to RMB41.040 billion. As at the End of the Reporting Period, the number of accounts of the Company trading through the Hong Kong Stock Connect was 76,151 in total, with the transaction amount of the Hong Kong Stock Connect amounting to RMB17.710 billion in the first half of 2017; the number of qualified investors with accounts in the Company for trading listed shares amounted to 7,368, representing a market share of 3.83%. The Company strictly complied with the Measures for the Administration of the Suitability of Securities and Futures Investors issued by the CSRC and the Guidance for Implementing the Administration of the Suitability of Institutional Investors of Securities Operation (Trial) issued by the SAC for the implementation of preparatory work, including completing the classification of investors, products and services as well as determining the principle of suitability, sorting out and amending existing internal system, implementation rules and procedures of suitability, proposing the requirements for the upgrade and alteration of business system, devising and implementing programs for training and investment education and promotion. As at the End of the Reporting Period, systems upgrade and alteration were completed and put online. All systems operated smoothly and clients carried out trading activities normally.



## MANAGEMENT DISCUSSION AND ANALYSIS

Subject to the management and control of risks in the credit business on a voluntary basis, the Company continuously strengthened its business development and pushed forward for the steady development of various businesses. As for the margin financing and securities lending business, the Company adopted marketing measures targeted at substantial shareholders of listed companies, professional institutional investors and high net worth clients, strengthened securities refinancing business to satisfy the risk hedging needs of professional investors for offline application of new shares, enhanced the management of differential interest and charge rates by adopting the pricing strategy that differentiated new clients from old clients with the objective of “maintaining the existing clients while attracting new clients”, and reinforced weekly transaction strategy information and daily transaction strategy information services for margin financing and securities lending business, studied and concluded customer layered service mechanism to boost customers’ satisfaction and loyalty. As at the end of the Reporting Period, the balance of the Company’s margin financing and securities lending business amounted to RMB47.448 billion, representing a decrease of 10.35% as compared with the end of 2016, with a market share of 5.39%, ranking seventh in the industry. The number of credit accounts was 314,800, representing an increase of 2.90% as compared with the end of 2016, with a market share of 7% in terms of newly opened accounts. During the Reporting Period, the margin financing turnover volume was RMB471.687 billion, representing a year-on-year decrease of 28.62%, with a market share of 5.46%, ranking fourth in the industry. In terms of its dealer-quoted securities repurchase business, the Company focused on promoting the development of this business and at the same time strengthened the business risk control. The Company complied with Several Provisions on the Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies and its implementation rules to adopt supplementary risk control measures for clients with medium and high risk that were greatly affected by the new policies, including reducing pledge rate and increasing performance guarantee percentage. Also, the Company carried out full-scale inspections, performed its commitment to customers of the existing projects, and promptly established corresponding measures to deal with identified issues and control risks. Furthermore, the Company continued to strengthen critical areas and procedures, including the service of notices, transaction execution and dealing with defaults, to effectively control and prevent against risks. As at the End of the Reporting Period, based on the data of the SSE and the SZSE, the Company’s balance of dealer-quoted securities repurchase business was RMB33.379 billion (including those under assets management plans), representing an increase of 47.39% as compared with the end of the last year, ranking fifteenth in the industry from its original position of twentieth at the beginning of the year. In particular, the Company ranked eleventh in terms of the proprietary share pledge business and ranked seventh in terms of the balances of new proprietary share pledges in the year when they created.

In terms of the research and institutional sales business, the Company endeavored to maintain its strength on research and development and market influence, and complied with the laws and regulations to practically carry out transformation based on optimizing the existing research and development system. Through joint research, video conferences, themed salon workshops and other means, the Company provided comprehensive value-added services with research and consultancy products as the base to internal and external customers of the Company. As at the End of the Reporting Period, the Company issued 754 research reports covering different aspects. Save for the existing businesses, including public funds, insurance institutions and QFII, the Company proactively expanded to new business sectors, including private equity for wholly foreign owned enterprises, the Hong Kong Stock Connect and asset management companies, in response to customers’ demand, thus expanding its business coverage. As at the End of the Reporting Period, the Company had established business cooperative relationship with 103 fund company clients, which covered all important fund companies in the market. It had 10 QFII and RQFII clients, 3 of which commenced the business of Shenzhen–Hong Kong Stock Connect and Shanghai–Hong Kong Stock Connect, with 1 additional QFII client during the Reporting Period. In addition, the Company actively carried out innovative businesses, including private equity business for wholly foreign owned enterprises, and was closely connected with more than 20 WFOE institutions and reached cooperation intention. During the Reporting Period, there were 3 newly contracted clients. The services provided by the Company covered 24 insurance asset management companies, 35 asset management departments of insurance companies and 4 insurance group clients.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Futures brokerage

Impacted by the policies of deleveraging and abandoning channel service, trading volume of the China futures market in the first half of 2017 declined sharply and the asset management business slowed down in stage. As the traditional brokerage business faced severe challenges, Galaxy Futures actively developed innovative business and applied to stock exchanges for the trial projects of “OTC Option” and “Insurance + Futures”. During the Reporting Period, Galaxy Futures realized revenue and other income of RMB416 million, representing an increase of 24.66% as compared with the same period of last year; daily average balance of clients amounted to RMB17.778 billion, representing an increase of RMB4.918 billion or 38.24% as compared with the same period of last year; the trading volume accumulated to 69 million board lots and the accumulated turnover amounted to RMB4.08 trillion, representing a decrease of 40% and 24%, respectively, as compared with the same period of last year. The asset management business of Galaxy Futures is transforming from the channel business to the proprietary business. As at the End of the Reporting Period, Galaxy Futures had 26 proprietary asset management products, with the management scale of RMB1.735 billion, representing an increase of 100% and 223% as compared with the end of 2016.

## 3. Proprietary trading and other securities trading services

During the Reporting Period, the revenue and other income of the Group from the proprietary trading and other securities trading services amounted to RMB1.121 billion, representing a decrease of 6.07% as compared with the same period of last year.

As for proprietary equity investment, the Company strictly implemented rules and regulations and decision making procedures and strengthened its operations in the secondary market. In the meantime, the Company leveraged its advantages for constantly participation in private placements and realized investment return from private placements by taking advantage of limited opportunities. Strategically, the Company carried out comprehensive analyses from various aspects, including low valuation, high growth rate, low momentum income, high yield distribution and long-term reverse turnover, closely monitored the market at all time and stayed focus. Besides, the Company continued to focus on the research of listed companies, and investigated and researched numerous listed companies. Such numerous and detailed analyses and studies supported our investment decisions.

As for proprietary bond investment, the Company generally maintained its prudent investment style, which reduced the leverage ratio and lowered base point value of portfolios to keep interest rate risk under control. The Company also properly increased investments in certain local bonds and high-rated credit bonds when the yields exceeded a specific benchmark. As one of the earliest pilot securities brokers conducting the dealer-quoted bond repurchase business, the Company has ranked the first in the SSE in terms of the size of the business since 2013. As at the End of the Reporting Period, the number of investors of the Company in the dealer-quoted bond repurchase business increased to over 469,000, hitting a new high, with the outstanding balance amounting to RMB6.098 billion.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company overcame the difficulties from the market downturn for its proprietary investment of derivatives and launched OTC options for provision of liquidity support to high net worth clients of the Company, thus satisfying clients' diversified needs in investment, risk aversion and transaction. The Company was the first to introduce the ETF fund liquidity services in the PRC securities industry and was the only securities company rated as "Excellent" in the liquidity service provider assessment by the SSE in 2016. In the liquidity service provider assessment by the SSE in 2017, 12 funds of the Company were subject to assessment in the first quarter and 10 of them were granted A grade or above; and 13 funds of the Company were subject to assessment in the second quarter and 12 of them were granted A grade or above. As at the End of the Reporting Period, the balance of the dealer-quoted repurchase business on the SZSE (the product "Jin Zi Lai (金自來)") amounted to RMB1.832 billion; the initial transaction amount of securities-based lending transactions business subject to repurchase (the product "Jin Shi Yu (金時雨)") amounted to RMB9 million; the balance of income certificates business (the product "Galaxy Jin Shan (銀河金山)") was RMB11.058 billion; and the balance of purchase for resale business was RMB1.936 billion.

## (ii) Investment banking business

During the Reporting Period, revenue and other income of the Group from the investment banking business amounted to RMB199 million, representing a decrease of 63.19% as compared with the same period of last year.

### 1. Equity financing

In the first half of 2017, the regulatory authorities strictly examined IPO projects in the pipeline. Following the release of Several Provisions on Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies, the scale of shareholding reduction by substantial shareholders sharply decreased, which affected projects such as refinancing. During the Reporting Period, the Company successfully completed one IPO project for equity financing business (Hainan Drinda Automotive Trim Co., Ltd (海南鈞達汽車飾件股份有限公司)), with a total underwriting amount of RMB690 million; and one share offering project for acquisition of assets and fundraising (Henan Yuneng Holdings Company Limited (河南豫能控股股份有限公司)) with a total underwriting amount of RMB2.556 billion. Such share offering project for acquisition of assets and fundraising by Henan Yuneng Holdings Company Limited represented the third cooperation between Henan Yuneng Holdings Company Limited and the Company for financing in the capital market, before which the Company provided financial consultancy services for its material asset restructuring in 2009 and sponsoring and underwriting services for its non-public issuance in 2014. During the Reporting Period, the amount of shares underwritten by the Company as a lead underwriter amounted to RMB2.828 billion in total. In May 2017, the Company was awarded ABS Pioneer Investment Bank Award in the "2017 International Pioneer Investment Bank Selection".

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Bond financing

In the first half of 2017, impacted by tightened liquidity and strict regulatory policy, the yield of the bond market remarkably increased. The bond issuance in the primary market noticeably slowed down, with significant drop in scale generally. The underwriting business of related bonds of the Company were largely affected by the market, with the number and scale underwritten decreasing as compared with the same period of last year. During the Reporting Period, the Company completed 12 projects in relation to corporate bonds in the capacity of lead underwriter with an underwriting amount of RMB13.550 billion; 4 projects in relation to enterprise bonds in the capacity of lead underwriter with an underwriting amount of RMB800 million; and 2 projects in relation to financial bonds in the capacity of lead underwriter with an underwriting amount of RMB1 billion. The Company actively responded to the change of the bond market, strengthened its study on the bond market, enhanced communication with investors and grasped the opportunities brought by the recovery of the bond market.

## 3. New OTC Board

In the first half of 2017, the New OTC Board entered into a fully regulatory stage. The growth of the number of enterprises listed on the New OTC Board slowed down and the financing scale remained flat as compared with last year. Market-making indices continued to decline and the number of market makers also decreased as compared with the same period of last year. To adapt to the change of regulatory environment, the Company continued to strengthen the establishment of the risk control system for the New OTC Board. Besides, in order to cope with the market change, the Company fully leveraged on its advantages in network and customer base, further pushed forward the establishment of the linkage mechanism between the head office and branches, consolidated the coordinating mechanism with investment business, explored the coordinating mechanism between investment advisory business and asset management business, and progressively built up and optimized the development of synergy among different chains within the businesses of the New OTC Board. Impacted by the market downturn and depressed sentiment, the performance indicators of the Company were significantly lower as compared with the same period of last year. During the Reporting Period, the Company completed 10 new listings through sponsorship on the New OTC Board, and 7 share issuances on the New OTC Board, with the funds raised by listed companies amounting to RMB772 million. The Company also had 3 new online market making projects and exited from 9 projects.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (iii) Investment management business

### 1. Asset management

In the first half of 2017, the securities industry continued to be driven by “deleveraging” policy, and the “unified regulation” was planned for the asset management industry. Securities brokers were under the regulatory pressure of “abandoning channel” in the asset management business, with the growth of their business scale constantly decreasing as compared with the same period of last year and the increase of their income remaining at a low level. On 11 April 2017, the Company made a capital contribution of RMB500 million to Galaxy Jinhui, after which the registered capital of Galaxy Jinhui amounted to RMB1 billion, which effectively mitigated Galaxy Jinhui’s pressure on meeting net capital regulatory indicators during its rapid development. Each of its business segments developed quickly with significant improvement in various performance indicators in the asset management business, including scale, income, profits and investment result, which surpassed the average growth rate of the industry. During the Reporting Period, the Company realized revenue and other income of RMB415 million from its asset management business, representing an increase of 12.72% as compared with the same period of last year. Galaxy Jinhui actively enhanced its management ability, focused on product innovation and extended its product coverage to private placements, income swap, bond investment, trading assets and transaction listing, to actively satisfy the customers’ investment demand. With innovative service methods and measures, the Company practically maintained and extended customer base and established “point-to-point” marketing models with bank clients. During the Reporting Period, the Company established new cooperative relationship with more than 80 creditworthy banks, which extensively widened our customer base of corporate and institutional investors. During the Reporting Period, the Company acted as the manager to newly issue corporate ABS (Asset-backed Securitization) products of RMB2.73 billion. According to the data of the Asset Management Association of China, the assets under management of Galaxy Jinhui amounted to RMB299.7 billion as at the End of the Reporting Period, representing an increase of 98% year-on-year, and its ranking in the industry rose from twenty-fourth at the end of 2016 to fourteenth, up 10 places. In particular, the scale of collective asset management business amounted to RMB43.9 billion, representing an increase of 31% as compared with the same period of last year; the scale of targeted asset management business amounted to RMB248.7 billion, representing an increase of 122% as compared with the same period of last year; the scale of special asset management business amounted to RMB7.1 billion, representing an increase of 21% as compared with the same period of last year. The Company had 283 management products, of which 69 were collective asset management products, 207 were targeted asset management products and 7 were special asset management products.

### 2. Private equity investment

In the first half of 2017, in accordance with the requirements of the regulatory authorities concerning the transformation by securities brokers of direct investment subsidiaries to private equity management subsidiaries, Galaxy Capital continued to push forward the transformation of investment business by leveraging on the opportunity from the regulation and rectification of private equity management subsidiaries and focusing on modification of systems, adjustment to procedures and development of fund business, promoted the private equity fund management business with Yueke Fund (粤科基金) as the key platform, strengthened the development of management business of new funds, continued its effort on the post-investment management of the existing investment projects with its own fund, pushed forward the exit from projects and properly dealt with problematic projects. During the Reporting Period, Galaxy Capital realized revenue and other income of RMB51 million, representing an increase of 218.75% as compared with the same period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. Alternative investment

Galaxy Yuanhui Investment focuses on equity investment and financial products investment. On 11 April 2017, the Company made a capital contribution of RMB1.15 billion to Galaxy Yuanhui Investment, which increased its registered capital from RMB350 million to RMB1.5 billion. After generally considering the macro situation as well as the business model and fund scale of its own capital investment business, Galaxy Yuanhui Investment quickly and stably made equity investment in the primary market, intermediate market and investment in equity financial products in the secondary market. During the Reporting Period, Galaxy Yuanhui Investment invested in 30 projects with a total investment of RMB1.508 billion, of which 6 were equity projects in the primary market with an investment of RMB97 million; 2 were equity projects in the intermediate market with an investment of RMB438 million; 13 were equity financial product projects in the secondary market with a total investment of RMB209 million; and 3 were non-standard financing product projects with an investment of RMB50 million. In addition, the total investment of fixed income and cash management financial products amounted to RMB714 million. During the Reporting Period, Galaxy Yuanhui Investment realized revenue and other income of RMB12 million, representing an increase of 300% as compared with the same period last year. The Company will adhere to professional investment idea and strict risk management to preserve and increase the asset value.

### (iv) Overseas business

In the first half of 2017, the Hong Kong capital market showed a mixed situation. On one hand, under the trend of closer relationship with the Mainland market, the Hong Kong market was supported by the preparation work for Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect, increase of quota of RQFII and inclusion of A shares in MSCI (Morgan Stanley Capital International); on the other hand, the Hong Kong market faced with downward pressure as a result of strengthened regulation from regulatory authorities, USD rate hike, tightened funding control by the PRC government and concerns about overseas market and political situation. The PRC Institutions have been increasingly active in carrying out securities brokerage business in Hong Kong. Previously, those institutions were mainly securities companies, and it has developed to include comprehensive financial and trading corporations in the PRC. As the market competition in Hong Kong has continued to intensify, business costs increased with lower profit margin and higher mobility of staff. As the traditional brokerage business faced challenges, certain securities brokers even attracted customers with long-term zero commission rate. Under such circumstance, during the Reporting Period, the revenue and other income from overseas business of the Company amounted to RMB202 million, representing an increase of 8.59% as compared with the same period of last year. On 6 June 2017, Galaxy International Holdings, CIMB Group Sdn Bhd and CIMB Securities International Pte. Ltd. entered into a sale and purchase agreement in Beijing, pursuant to which Galaxy International Holdings agreed to purchase 50% of the issued share capital of CIMB Securities International Pte. Ltd. at completion from CIMB Group Sdn Bhd for a consideration of SG\$166,964,921. The completion of the transaction is expected to take place at the end of 2017. At such time, the Group's overseas business network will extend to those major countries in Southeast Asia and other overseas countries. Galaxy International Holdings will make use of the opportunity resulting from the Group's internationalization to take full advantage of the One Belt One Road policy of the country, leverage on the Group's position as the bridge between the domestic and overseas markets, strengthen business innovation and enrich the product line and enhance its income creation ability and core competitiveness while satisfying the needs of domestic customers to invest in overseas market and the needs of overseas customers to invest in domestic market.

# MANAGEMENT DISCUSSION AND ANALYSIS

## III. OUTLOOK AND FUTURE PLANS

In the second half of 2017, the recovery of foreign economies is a stabilizer for the PRC's economy. In general, the PRC's economy will achieve progress through stability. In capital market, uncertainties increase under the influence of regulatory reform for the financial industry. However, it also comes with opportunities. Following the strict regulatory governance in the securities brokerage industry, risks relating to the industry were fully reduced. Under the guidance of policies of deleveraging in the financial industry and restraining virtual economy and reinforcing real economy, the industry is facing a challenge of seeking a breakthrough. Competition within the industry becomes increasingly fiercer. Therefore, the opening up of the industry shall accelerate to inject new elements into the competitive environment. The Company will adhere to its strategic objective of "building up a flagship securities brokerage, establishing a modern investment bank". Based on the listing of A Shares and supported by internal system reform, the Company will develop its brokerage, investment banking, asset management, investment and Internet business, as well as carry out acquisition and merger in overseas market in order to maximize operation results.

In the second half of 2017, facing the continuous decline of commission rate and lower industry concentration, the Company will accelerate the system adjustment in the brokerage business and finalize its operation system. The Company will satisfy customers' need, restructure the operation model of brokerage business and realize the transformation from traditional service to comprehensive wealth management service by virtue of large customer base, increasing supply, optimizing operation, enhancing service quality and large transaction amount and quick transaction speed. As for the investment banking business, under the further optimized organizational structure, the Company will improve the comprehensive system for serving institutional and strategic clients, establish a top team for investment banking service appropriately for the reform of state-owned enterprises and production capacity upgrade of large state-owned enterprise, and actively participate in the market competition in investment banking business for mega-, large- and middle-sized enterprises. As for the asset management business, the Company will strengthen the team establishment, boost active management skills, focus on product innovation, continuously optimize investment service and strive to coordinate with related parties to obtain the qualification for conducting public fund business. As for the investment business, proprietary equity investment business will continue to take advantage of participation in private placement, increase investment return rate, progressively strengthen strategic and quantified stock selection and transaction in the secondary market and continuously optimize multi-factor model to fully cover any events and strategies that generate stable and unusually excessive returns for examination. As for the proprietary bond investment business, the Company will maintain proper and stable strategy, further extend the scale of arbitrage business and enrich the types of arbitrage business. As for the alternative investment business, the Company will deploy in certain areas, including making equity investment in the primary market, acquisition and merger in the intermediate market, and select the best strategies to take risk aversion and diversified financial products allocation into consideration. As for the Internet financial business, the Company will continuously optimize the financial product system for wealth management accounts, keep optimizing the Internet service for traditional business, carry out brand marketing campaign via Internet and explore effective and in-depth operation plans for Internet products. The Company will advance and implement overseas acquisition and merger projects in accordance with governance procedures, complete the closing with acquired party and coordinate businesses of both parties to successfully employ the strategy of internal and external interaction in various business fields. Also, the Company will further optimize performance management, enhance compliance risk control and management, continuously advance the establishment of comprehensive risk management system, consolidate financial ability, strengthen the supporting function of technology to our business and increase refined management skill to effectively improve the Company's competitiveness.

# MANAGEMENT DISCUSSION AND ANALYSIS

## IV. ANALYSIS OF FINANCIAL STATEMENTS

### Liquidity, financial resources and share capital structure

During the Reporting Period, the Group continuously maintained its profitability and realized capital preservation and appreciation. As at 30 June 2017, net assets attributable to owners of the Company amounted to RMB62.641 billion, representing an increase of RMB4.653 billion or 8.02% as compared with RMB57.989 billion as at the end of 2016, which was mainly due to an increase of RMB3.954 billion from the proceeds from IPO of A Shares and an increase in profits of RMB2.131 billion, as well as the reduction of final dividend distribution of RMB1.571 billion for the year of 2016.

Asset structure constantly improved and asset quality and liquidity remained satisfactory. As at 30 June 2017, total assets of the Group, excluding clients' funds, amounted to RMB154.832 billion, representing a decrease of RMB644 million or 0.41% as compared with the total assets of RMB155.476 billion as at the end of 2016 on a comparable basis. In particular, cash and bank balances accounted for 6% of the total assets. Investment assets, which mainly consisted of investments in high liquidity financial assets, accounted for 43% of the total assets. Margin financing and securities lending business grew rapidly, with advances to its customers accounting for 32% of the total assets. Dealer-quoted securities repurchase transactions and securities-based lending transactions accounted for 13% of the total assets.

The gearing ratio of the Group decreased slightly. As at 30 June 2017, the own gearing ratio of the Group was 59.29%, representing a decrease of 3.18 percentage points as compared with 62.47% as at the end of 2016. Operating leverage (own assets/net assets) of the Company was 2.47 times, representing a decrease of 7.81% as compared with 2.68 times as at the end of 2016. The decrease in leverage ratio was mainly attributable to the newly issued shares from A Shares IPO.

The Company adopted various measures to raise short-term capital, including issuing short-term corporate bonds, short-term subordinated bonds, transfer of income right of margin financing and securities lending business, and income certificates. Meanwhile, the Company also raised long-term capital by various means, including IPO of A Shares and issuance of long-term corporate bonds, based on the market conditions and its own needs. At present, the Company has obtained comprehensive credit lines from various commercial banks and can use the above debt financing instruments to raise funds based on its business needs.

Excluding the effects of changes in customers' margins, the net increase in cash and cash equivalents of the Company during the Reporting Period was RMB-1.642 billion, representing a decrease of RMB1.779 billion as compared with RMB137 million for the same period in 2016. The net cash flow from the operating activities of the Company during the Reporting Period was RMB-7.365 billion, representing a decrease of RMB30.682 billion as compared with RMB23.317 billion for the same period in 2016, which was mainly due to the decrease in securities brokerage fee and the increase in dealer-quoted securities repurchase; the net cash flow from the investing activities of the Company during the Reporting Period was RMB1.737 billion, representing an increase of RMB4.914 billion as compared with RMB-3.177 billion for the same period in 2016, which was mainly due to the decrease in available-for-sale investment; the net cash flow from the financing activities of the Company during the Reporting Period was RMB3.985 billion, representing an increase of RMB23.988 billion as compared with RMB-20.003 billion for the same period in 2016, which was mainly due to the financing activities of the Company in the first half of 2017, including IPO of A Shares and issuance of corporate bonds.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Profitability analysis of the Company during the Reporting Period

In the first half of 2017, the Group realized revenue and other income of RMB7.704 billion, representing a decrease of 16.72% as compared to the same period of last year, of which brokerage business realized revenue and other income of RMB5.254 billion, representing a decrease of 18.93% as compared to the same period of last year; futures business realized revenue and other income of RMB416 million, representing an increase of 24.66% as compared to the same period of last year; proprietary trading and other securities trading services realized revenue and other income of RMB1.121 billion, representing a decrease of 6.07% as compared to the same period of last year; investment banking business realized revenue and other income of RMB199 million, representing a decrease of 63.19% as compared to the same period of last year; asset management business realized revenue and other income of RMB415 million, representing an increase of 12.72% as compared to the same of last year; private equity investment business realized revenue and other income of RMB51 million, representing an increase of 218.75% as compared to the same period of last year; alternative asset investment business realized revenue and other income of RMB12 million, representing an increase of 300% as compared to the same period of last year; overseas business realized revenue and other income of RMB202 million, representing an increase of 8.59% as compared to the same period of last year. In the first half of 2017, expenses paid by the Group amounted to RMB5.087 billion, representing a decrease of 19.46% as compared to the same of last year.

In the first half of 2017, the Group realized net profits attributable to owners of the Company of RMB2.112 billion, representing a decrease of 6.35% as compared to the same period of last year; the Group realized earnings per share of RMB0.21, representing a decrease of 12.50% as compared to the same period of last year; and the weighted average return on net assets amounted to 3.38%, representing a decrease of 0.55 percentage point as compared to the same period of last year.

## Asset structure and quality

As at 30 June 2017, total assets of the Group amounted to RMB229.446 billion, representing a decrease of 6.68% as compared to the end of 2016. Monetary fund amounted to RMB63.569 billion, representing 27.71% of the total assets. Clearing settlement funds amounted to RMB14.388 billion, representing 6.27% of the total assets. Financing funds amounted to RMB49.753 billion, representing 21.68% of the total assets. Financial assets at fair value through profit and loss amounted to RMB27.558 billion, representing 12.01% of the total assets. Financial assets purchased under resale agreements amounted to RMB21.739 billion, representing 9.47% of the total assets. Available-for-sale financial assets amounted to RMB34.380 billion, representing 14.98% of the total assets. The Group's assets were highly liquid with reasonable structure. In addition, after considering market fluctuation, the Group made corresponding impairment provision for the assets showing signs of impairment, which maintained high asset quality.

As at 30 June 2017, total liabilities of the Group amounted to RMB166.420 billion. Excluding securities brokerage services, the Group's own liabilities amounted to RMB91.807 billion, of which the Group's own current liabilities and own long-term liabilities amounted to RMB55.544 billion and RMB36.262 billion, representing a share of 60.50% and 39.50%, respectively. The Group's own liabilities are mainly comprised of income certificate payables of RMB10.908 billion, representing a share of 11.88%; financial assets sold under repurchase agreements of RMB16.196 billion, representing a share of 17.64%; and bond payables of RMB49.491 billion, representing a share of 53.91%. The gearing ratio of the Group was 59.29%, which represented a reasonable liabilities structure. The Group did not have any outstanding debts and its business was in sound condition with strong profitability as well as good long-term and short-term solvency.

# MANAGEMENT DISCUSSION AND ANALYSIS

## V. ESTABLISHMENT AND DISPOSAL OF SECURITIES BRANCHES AND BRANCH OFFICES

As at the End of the Reporting Period, the Company had 36 branch offices and 427 securities branches.

### 1. Establishment of branch offices and securities branches

During the Reporting Period, according to the “Approval on the Establishment of 67 Branches by China Galaxy Securities Co., Ltd.” (Jing Zheng Jian Xu Ke [2016] No. 79) issued by the CSRC Beijing Bureau in 2016, the Company completed the establishment of 67 securities branches, namely, securities branch in Wuzhou Road, Yongkang, securities branch in Zhenxing East Road, Tongxiang, securities branch in Shengli West Road, Anji, securities branch in Yongzhong West Road, Wenzhou, securities branch in Longgang Main Street, Cangnan, securities branch in Shixin Middle Road, Hangzhou, securities branch in Dongyi Road, Zhuji, securities branch in Chonghe Road, Linhai, securities branch in Qianjiang West Road, Haining, securities branch in Haiyun International Building, Hangzhou, securities branch in Sanxing Main Street, Wenling, securities branch in Shandong Road, Yining, securities branch in South Main Street, Aksu, securities branch in Wenhua Road, Wenjiang, Chengdu, securities branch in Longdu South Road, Longquanyi, Chengdu, securities branch in Qianhai, Shenzhen, securities branch in Haixiu Road, Baoan, Shenzhen, securities branch in Rongle East Road, Songjiang District, Shanghai, securities branch in Xiangchuan Road, Shanghai, securities branch in Lingyan South Road, Pudong New District, Shanghai, securities branch in Baojin Road, Yangquan, securities branch in Liuquan South Road, Datong, securities branch in Taihang East Road, Changzhi, securities branch in University West Road, Dezhou, securities branch in Changcheng Road, Taian, securities branch in Haitian Road, Xiamen, securities branch in Honglian Road, Xiamen, securities branch in Tabu East Road, Xiamen, securities branch in Xiadu Main Street, Xining, securities branch in Yanqing Road, Jimo, Qingdao, securities branch in Harbin Road, Qingdao, securities branch in Wuling West Road, Wuzhong, securities branch in Gulou East Street, Zhongwei, securities branch in Qingnan Road, Jilao, Dongsheng, Erdos, securities branch in Qiaotou Street, Hulunbuir, securities branch in Shifu Main Street, Panjin, securities branch in Liantang, Nanchang, securities branch in Dongshi Road, Hongze, Huai’an, securities branch in Guibin South Road, Yixing, securities branch in Century South Avenue, Zhouzhuang, Jiangyin, securities branch in Qingnian South Road, Taizhou, securities branch in Xiaolin Road, Kunshan, securities branch in Baitian Road, Baoying, securities branch in Jianshe Road, Changde, securities branch in Hongqi Road, Shaoyang, securities branch in Jiefang Main Street, Hengyang, securities branch in Jianxiang Road, Yueyang, securities branch in Yingfeng West Road, Huaihua, securities branch in Longhua Road, Qiqihar, securities branch in Hongqi Road, Jixi, securities branch in Ruzhou, securities branch in Wenming Main Street, Zhumadian, securities branch in Changcheng West Street, Zhangjiakou, securities branch in Kunming Road, Zunyi, securities branch in Danshui, Huizhou, securities branch in Yuewang Main Street, Heyuan, securities branch in Xiuyuan Road, Jiuquan, securities branch in East Main Street, Pingliang, securities branch in Ningde, securities branch in Baima Road, Fuzhou, securities branch in Jiangjun Main Street, Yunxiao, securities branch in Jinma Road, Dalian, securities branch in Laiguangying, Beijing, securities branch in Chaoyang Road, Beijing, securities branch in Yungu Road, Hefei, securities branch in Yi’an Main Street, Tongling and securities branch in Huaihe Road, Fuyang.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Relocation of branch offices and securities branches

The Company has constantly adjusted and optimized the branch layout. During the Reporting Period, the Company relocated 23 branches within the same city, including 4 branch offices and 19 securities branches.

Branch offices:

No.	Province/ autonomous region/ direct-controlled municipality	Branch offices	Existing addresses
1	Shanghai	Shanghai branch office	Room 01, 31/F, 99 Fucheng Road, China (Shanghai) Pilot Free Trade Zone
2	Guangdong Province	Shenzhen branch office	20/F, Zhongzhou Building, No. 3088, Jintian Road, Futian Street, Futian District, Shenzhen
3	Jilin Province	Jilin branch office	No.1161, West Minzhu Street, Chaoyang District, Changchun, Jilin Province
4	Guizhou Province	Guizhou branch office	12, 13, 14 and 15, 20/F, Block 5, Commercial Area, Guiyang International Financial Centre, Northwest corner of Lincheng Road and Changling Road, Guan Shan Hu District, Guiyang, Guizhou Province

Securities branches:

No.	Province/ autonomous region/direct- controlled municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
1	Shanghai	Shanghai Renmin Road Securities Branch	Shanghai Huangpu District Madang Road Securities Branch	Room A2205 and Room C104, Fuxing Plaza, No. 388 Madang Road, Huangpu District, Shanghai
2	Shanghai	Shanghai Zhaojiabang Road Securities Branch	Shanghai Zhaojiabang Road Securities Branch	Room 907, 908, 909, 910, 911, 912, 915, 916, 917, 918 and 920, 9/F, No. 212, Zhaojiabang Road, Huangpu District, Shanghai
3	Shanghai	Shanghai Pilot Free Trade Zone Jilong Road Securities Branch	Shanghai Pilot Free Trade Zone Jilong Road Securities Branch	Shop 3, 1/F, No. 1, Jilong Road, China (Shanghai) Pilot Free Trade Zone

## MANAGEMENT DISCUSSION AND ANALYSIS

No.	Province/ autonomous region/direct- controlled municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
4	Guangdong Province	Guangzhou Panyu Nanjiao Street Securities Branch	Guangzhou Panyu Wanbo Fourth Road Securities Branch	301-1, Block 2, No. 42, Wanbo Fourth Road, Nancun town, Panyu District, Guangzhou
5	Jiangsu Province	Nanjing Gaochun Baota Road Securities Branch	Nanjing Huashen Avenue Securities Branch	No. 11-14, Huashen Avenue, Yuhuatai District, Nanjing, Jiangsu
6	Jiangsu Province	Changshu Haiyu North Road Securities Branch	Changshu Zhujiang East Road Securities Branch	No. 93, Zhujiang East Road, Changshu, Jiangsu
7	Zhejiang Province	Ningbo Jiefang South Street Securities Branch	Ningbo Liuting Street Securities Branch	Room 1607-1610, 16/F, No. 225, Liuting Street, Haishu District, Ningbo
8	Zhejiang Province	Jiaxing Securities Branch	Jiaxing Huancheng South Road Securities Branch	No. 281, Huancheng South Road, Jiaxing, Zhejiang
9	Chongqing	Chongqing Zhujiang Road Securities Branch	Chongqing Mix C Store Securities Branch	No. 2-1, Block 26, No. 55, Xiejiawan Main Street, Jiulongpo District, Chongqing
10	Hubei Province	Wuhan Wuluo Street Securities Branch	Wuhan Wuluo Street Securities Branch	No. 2-3, 4/F and No. 105, 1/F, Future Mansion, No. 668 Wuluo Street, Hongshan District, Wuhan
11	Liaoning Province	Dalian Yan'an Road Securities Branch	Dalian Yide Street Securities Branch	Room 01, 08 and 07, 5/F, No. 20, Yide Street, Zhongshan District, Dalian, Liaoning
12	Anhui Province	Anqing Yanjiang East Road Securities Branch	Anqing Jixian South Street Securities Branch	No. 2, Jixian South Street, Dagan District, Anqing, Anhui
13	Hebei Province	Cangzhou Yong'an South Avenue Securities Branch	Cangzhou Yong'an South Avenue Securities Branch	Shop 1202, 5th Part, Yihewenyuan, Jiefang West Road, Yunhe District, Cangzhou
14	Sichuan Province	Chengdu Renmin South Road Securities Branch	Chengdu Yizhou Avenue Securities Branch	No. 201, 2/F, Unit 1, Block 1, No. 555, midsection of Yizhou Avenue, High-Tech District, Chengdu

## MANAGEMENT DISCUSSION AND ANALYSIS

No.	Province/ autonomous region/direct- controlled municipality	Original names of securities branches	Existing name of securities branches	Existing addresses
15	Yunnan Province	Yiliang Renmin Road Securities Branch	Yiliang Huayuan Street Securities Branch	2/F, Block 6, Vision City Plaza, Huayuan Street, Yiliang county, Kunming, Yunnan
16	Yunnan Province	Qijing Jiaotong Road Securities Branch	Qijing Jiaotong Road Securities Branch	No. 50, Jiaotong Road, Qilin District, Qijing, Yunnan
17	Yunnan Province	Mojiang Huigui Avenue Securities Branch	Mojiang Twins Avenue Securities Branch	Shop 4-e, 1/F, Unit 3, Xingyujinyue Garden, Twins Avenue, Moon Plaza, Mojiang county, Pu'er, Yunnan
18	Guizhou Province	Guiyang Jinyang Guanshan West Road Securities Branch	Guiyang Changling North Road Securities Branch	12, 13, 14 and 15, 20/F, Block 5, Commercial Area, Guiyang International Financial Centre, Northwest corner of Lincheng Road and Changling Road, Guan Shan Hu District, Guiyang
19	Gansu Province	Baiyin Renmin Road Securities Branch	Baiyin Hongxing Road Securities Branch	5-01, Block 7, No. 280, Hongxing Road, Baiyin District, Baiyin, Gansu

## VI. FINANCING OF THE COMPANY

### (i) Equity financing

In January 2017, the Company carried out initial public offering of 600,000,000 A Shares to eligible natural person and institutional investors at a price of RMB6.81 per share, which became listed on the SSE on 23 January 2017. The total proceeds amounted to RMB4,086 million. After deducting issuance expenses, the net proceeds raised amounted to RMB3,954 million which have been used to increase the capital and replenish working capital of the Company.

### (ii) Bond financing

(1) During the Reporting Period, the Company non-publicly issued corporate bonds with an aggregate principal amount of RMB18.61 billion in total, and such corporate bonds were listed on the SSE. Details are set out as follows:

Bond name	Abbreviation	Code	Value date	Expiry date	Principal amount (RMB billion)	Interest rate (%)	Settlement arrangement	Exchange
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 1) (Type 1)	17 Galaxy F1	145356.SH	27/2/2017	27/2/2019	2.50	4.65%	Interest will be paid annually and the principal amount will be repaid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 1) (Type 2)	17 Galaxy F2	145357.SH	27/2/2017	27/11/2017	2.50	4.60%	Principal and interest will be paid upon maturity	SSE

## MANAGEMENT DISCUSSION AND ANALYSIS

Bond name	Abbreviation	Code	Value date	Expiry date	Principal amount (RMB billion)	Interest rate (%)	Settlement arrangement	Exchange
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 2) (Type 1)	17 Galaxy F3	145428.SH	23/3/2017	23/3/2019	1.76	4.98%	Interest will be paid annually and the principal amount will be repaid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 2) (Type 2)	17 Galaxy F4	145429.SH	23/3/2017	23/9/2019	2.50	4.98%	Interest will be paid twice annually and the principal amount will be repaid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 3) (Type 1)	17 Galaxy F5	145516.SH	28/4/2017	28/4/2019	4.63	4.95%	Interest will be paid annually and the principal amount will be repaid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 3) (Type 2)	17 Galaxy F6	145517.SH	28/4/2017	28/4/2020	4.72	4.99%	Interest will be paid annually and the principal amount will be repaid upon maturity	SSE

- (2) During the Reporting Period, the Company issued securities company short-term corporate bonds with an aggregate principal amount of RMB3.87 billion in total, and such corporate bonds were listed on the SSE. Details are set out as follows:

Bond name	Abbreviation	Code	Value date	Expiry date	Principal amount (RMB billion)	Interest rate (%)	Settlement arrangement	Exchange
Non-public issuance of 2017 short-term corporate bond of China Galaxy Securities Co., Ltd. (Tranche 1) (Type 1)	17 Galaxy D1	145419.SH	23/3/2017	23/9/2017	1.37	4.80%	Principal and interest will be paid upon maturity	SSE
Non-public issuance of 2017 short-term corporate bond of China Galaxy Securities Co., Ltd. (Tranche 1) (Type 2)	17 Galaxy D2	145420.SH	23/3/2017	23/12/2017	2.50	4.88%	Principal and interest will be paid upon maturity	SSE

# MANAGEMENT DISCUSSION AND ANALYSIS

## (iii) Financing activities after the Reporting Period

Bond name	Abbreviation	Code	Value date	Expiry date	Principal amount (RMB billion)	Interest rate (%)	Settlement arrangement	Exchange
Public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 1)	17 Galaxy G1	143158.SH	10/07/2017	10/07/2020	5.00	4.55%	Interest will be paid annually and the principal amount will be repaid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 4) (Type 1)	17 Galaxy F7	145752.SH	29/08/2017	29/05/2018	1.93	4.79%	Principal and interest will be paid upon maturity	SSE
Non-public issuance of 2017 corporate bond of China Galaxy Securities Co., Ltd. (Tranche 4) (Type 2)	17 Galaxy F8	145753.SH	29/08/2017	29/08/2018	1.80	4.79%	Principal and interest will be paid upon maturity	SSE

## VII. MATERIAL ASSET ACQUISITION, DISPOSAL, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES OF THE COMPANY

On 6 June 2017, Galaxy International Holdings, CIMB Group Sdn Bhd and CIMB Securities International Pte. Ltd. entered into a sale and purchase agreement in Beijing, pursuant to which, Galaxy International Holdings agreed to purchase 50% of issued share capital of CIMB Securities International Pte. Ltd. at completion from CIMB Group Sdn Bhd for a consideration of SG\$166,964,921. The completion of the transaction is expected to take place at the end of 2017.

On 22 June 2017, the Company considered and passed the “Resolution of Increase of Net Capital Guarantee to Galaxy Jinhui” by the Company at 2016 annual general meeting, pursuant to which the Company agreed to provide net capital guarantee to Galaxy Jinhui of RMB1 billion to satisfy its business development requirements.

On 30 August 2017, the “Proposal on Further Increase of Net Capital Guarantee to Galaxy Jinhui” was passed at the 31st meeting of the third session of the Board, during which it was agreed to increase the net capital guarantee to Galaxy Jinhui by RMB2 billion so as to satisfy its requirements for continuous risk management and business development.

During the Reporting Period, the Company did not undertake any material asset acquisition, disposal or swap, and merger and acquisition. During the Reporting Period, there was no off balance sheet item or contingent liability which may have a material impact on the financial condition and operating results of the Company, such as material external mortgage and pledge.

## VIII. CAPITAL INJECTION AND INVESTMENT TO SUBSIDIARIES

- (1) On 30 March 2017, the “Proposal on the Review of the Report regarding a Capital Increase Application of Galaxy Yuanhui Investment Co., Ltd.” was passed at the 23rd meeting of the third session of the Board, during which it was agreed to increase Galaxy Yuanhui’s registered capital by RMB1.15 billion. After the capital increase, the registered capital of Galaxy Yuanhui is RMB1.5 billion. On 11 April 2017, the above capital increase was completed.
- (2) On 30 March 2017, the “Proposal on the Review of the Report regarding Galaxy Jinhui’s Application to its Parent Company, Galaxy Securities, for an Increase of its Registered Capital” was passed at the 23rd meeting of the third session of the Board, during which it was agreed to increase Galaxy Jinhui’s registered capital by RMB0.5 billion. After the capital increase, the registered capital of Galaxy Jinhui is RMB1 billion. On 11 April 2017, the above capital increase was completed.

## MANAGEMENT DISCUSSION AND ANALYSIS

- (3) On 30 August 2017, the “Proposal on Further Increase of Registered Capital of Galaxy Jinhui” was passed at the 31st meeting of the third session of the Board, during which it was agreed to increase Galaxy Jinhui’s registered capital by RMB1 billion. After the capital increase, the registered capital of Galaxy Jinhui will be RMB2 billion.
- (4) The Company, as the trustor, contributed RMB3.0 billion and RMB2.0 billion on 7 July 2017 and 14 July 2017, respectively, to invest in the Galaxy Henghui CPPI Strategy No.5 Targeted Asset Management Plan established by Galaxy Jinhui, a subsidiary of the Company. The investment scope of the plan included cash assets, bonds, quasi fixed income assets and equity assets.
- (5) On 24 March 2016, the “Proposal on the Increase of Registered Capital of the Hong Kong Subsidiary” was passed at the 11th meeting of the third session of the Board. In order to support the business development of Galaxy International Holdings, it was proposed to increase its registered capital by HK\$4 billion. After the capital increase, the registered capital of Galaxy International Holdings will be HK\$5 billion. Such capital will be injected by phase taking into account the operating condition of Galaxy International Holdings and its actual capital requirement. On 18 August 2017, the CSRC issued “Reply to the opinion on the capital increase by China Galaxy Securities Co., Ltd. to China Galaxy International Financial Holdings Company Limited” (Ji Gou Bu Han [2017] No. 2035), which expresses no objection towards the Company’s first phase capital increase of US\$289 million to Galaxy International Holdings. On 30 August 2017, the Company completed procedures related to foreign exchange registration and capital transfer in accordance with the relevant regulations of the State Administration of Foreign Exchange.

### IX. NUMBER OF EMPLOYEES, REMUNERATION AND TRAINING PLAN

As at the End of the Reporting Period, the Group had 9,970 employees (including sales account managers), of which 8,966 were employees of the Company (including sales account managers).

In terms of remuneration and incentive measures, Company has progressively improved a competitive remuneration mechanism covering all employees. The remuneration of employees of the Company comprises basic remuneration, allowances, performance-based bonus and welfare benefits. The basic remuneration is a relatively fixed part in the composition of remuneration. The allowances include allowances for management positions and for professional and technical personnel, which are supplemental to the basic remuneration. The performance-based bonus is derived from annual profits of the Company, and will be distributed based on the results of performance assessment. The Company has provided social insurance, housing provident fund and other statutory benefits to its employees according to the relevant requirements of the PRC. Meanwhile, the Company has also provided welfare benefits, such as annuity fund and supplementary medical insurance, to its employees. Currently, the Company complies with benchmarking, performance-driven, risk control and combining integration and differentiation principles to keep optimizing and improving remuneration and incentive mechanism, establish and improve the fixed and dynamic management regime for remuneration based on the benchmark of comparable securities market, clarify the relationship between the bonus amount of business lines and the Company’s operation, appraisal result of business lines and market benchmark, which creates a remuneration mechanism linked with performance and terminates the “lump sum basis mechanism” for investment banking business.

In terms of trainings for employees, the Company has adhered to the management model that combines project management with quota management, and the mechanism that administrates different business lines separately. The Company has reasonably distributed training resources, enhanced training efficiency, and put more efforts on training so as to achieve the objective of the overall appreciation of human capital. The Company actively organized different types of trainings to employees of all business lines and at all levels, and strengthened overall qualities, professional level, and execution and innovation abilities of professional staffs of all business lines.



# MANAGEMENT DISCUSSION AND ANALYSIS

## X. RISK MANAGEMENT

Since its establishment, the Company has been committed to promote the philosophy that risk management creates value. It gradually promoted comprehensive risk management through identification, evaluation, monitoring, analysis and response to various kinds of risks, thus solidifying the foundation for the Company's sustainable, steady and healthy development.

### (I) Major risks affecting the operation of the Company, including market risk, credit risk, operational risk and liquidity risk

#### 1. Market risk

Market risk is originated from the fluctuation of the fair value or future cash flows in respect of financial instruments held by the Company resulting from the changes in securities price, interest rate and currency rate, including securities price risk, interest rate risk and currency rate risk.

- (1) Securities price risk is the risk that the Company may suffer losses as a result of the fluctuation of the fair value or future cash flows of financial instruments due to the changes in securities prices (other than changes resulting from interest rate risk or currency risk).

Securities price risk mainly relates to the Company's proprietary investment and market making businesses. In order to control securities price risks, the Company mainly adopts the following measures: firstly, constructing securities portfolios and using financial derivatives for effective risk hedging; secondly, implementing unified management of risk exposure, identifying and dealing with risks in time through risk monitoring, assessment and reporting; thirdly, carrying out risk quota management to control exposure scale, concentration ratio and loss quota, and making adjustment timely based on the development of market and businesses and risk tolerance of the Company; fourthly, using quantitative methods such as VaR and combining with other methods such as sensitivity analysis and stress testing to assess the relative and absolute risk of portfolios.

During the Reporting Period, affected by the market fluctuation, the price of securities held by the Company had large volatility. However, the Company effectively controlled the size of exposure of the proprietary business through risk hedging and quota management, and timely monitored the position risks of the securities held by the Company, so that the large volatility of the prices did not lead to the losses of the Company. As at the End of the Reporting Period, the VaR of the Company's investment portfolio amounted to approximately RMB109 million, not over 0.3% of its net capital.

- (2) Interest rate risk refers to the risks resulting from the change in interest rate. The assets of the Company exposed to interest rate risks mainly include bank deposits, clearing settlement fund, refundable deposits and debt equities, etc. The Company used sensitivity analysis as the main instrument for monitoring interest rate risks. Meanwhile, the Company reduced the interest rate risks of portfolios by allocating the duration and convexity of its investment portfolios of fixed income. During the Reporting Period, the overall risk of the Company was within an acceptable range.
- (3) Currency rate risk is originated from the fluctuation of the fair value or future cash flows of financial instruments resulting from the change of currency rates of other countries. Given that the Company settles most of its transactions in RMB and the proportion of foreign currency assets, liabilities and proceeds of the Company in its total assets, liabilities and proceeds is small, the currency risk actually encountered by the Company is not significant. Nevertheless, with the gradual expansion of overseas businesses as well as the progress in the internationalization of RMB, the currency risks of the Company will appear gradually. The Company will conduct further studies and adopt reasonable and effective measures to mitigate any impact of currency risks.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. Credit risk

Credit risk refers to the potential possibility of incurring losses resulting from the failure of the borrower or counterparty to timely fulfill its contractual obligations, and it also includes the possibility of incurring losses due to changes in the market value of the debts of the borrower or counterparty resulting from the changes in the credit rating and performance capability of such borrower or counterparty. The Company managed credit risk mainly by evaluating credit risk in advance and following up and monitoring credit risk afterward, and gradually promoting the establishment and application of tools such as internal credit rating and risk management system for financing businesses. On one hand, the Company established the guidance for risk management of financing businesses to determine the standards for evaluating the admission of counterparty and business transaction factors to prepare for risk evaluation in advance; on the other hand, the Company closely monitored the risk movement of collateral, controlled concentration risk and conducted stress tests. In addition, the Company continuously traced its clients' financial conditions, operation standard and other significant events that would affect their credit within the duration of business, and identified, reported and dealt with credit risk in time.

As at the End of the Reporting Period, 51.66% of the credit bonds held by the Company had a credit rating of AAA, 48.34% had a credit rating of AAA-, AA+, AA and no bond was rated AA or below. There was no default from counterparties. During the Reporting Period, there were 547 cases of compulsory close position operation in the margin financing and securities lending business with the size reaching RMB46.2072 million, all of which were operated in accordance with the standardized procedures stipulated in business rules and contracts. After compulsory close position operation, no amount due from customers was recorded. There was no actual loss incurred by securities-based lending transactions, dealer-quoted securities repurchase transactions and equity swap transactions. The overall credit risk of the Company was under control.

## 3. Operational risk

Operational risk refers to the risk of incurring losses resulting from the inadequacy or defect of internal operating procedures, personnel or systems, or from such external events. In order to manage operational risk effectively, the Company established a well-developed internal control system, regularly carried out effective assessment of internal control and compliance management throughout the Company. The operational risk management team specially set up by the risk management department was in charge of designing, maintaining and constantly developing the management structure of operational risk and monitoring, measuring and reporting the operational risks faced by the Company, and effectively identifying and managing the operational risks by operating the risk management tools, policy-making and construction of IT system, training and assessment to maintain the operational risks at a proper level so as to provide a healthy internal operational environment for business development.

During the Reporting Period, the overall operational risk of the Company was under control.

## 4. Liquidity risk

Liquidity risk refers to the risk resulting from inability to timely obtain sufficient funds at rational costs to repay debts due, fulfill other payment obligations and satisfy the demands for capital in the ordinary course of business.

As for liquidity risk, the Company formulated the risk evaluation and measurement methods based on the "Guidance for Securities Companies on Liquidity Risk Management", including but not limited to analysis on the mismatch of maturity of assets and liabilities, source and diversification of financing, liquidity assets with good quality and market liquidity, forecast of static and dynamic cash flow and cash flow gap, monitoring of internal and external liquidity indicators, and carrying out stress test for liquidity.

To cope with and manage liquidity risk effectively, the Company strengthened the real-time monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation and unified liquidity risk management, adjusted and configured the scale and maturity structure of assets and liabilities to build up a multi-level liquidity reserve system, constructed an integrated fund and liquidity risk management system and achieved the target of our liquidity portfolio through accessing the money market, capital market and bank credit.

During the Reporting Period, the overall liquidity risk of the Company was under control and all liquidity indicators were satisfactory.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (II) Actions and measures taken or proposed to be taken by the Company

When replenishing the capital and seizing the opportunities, the Company transformed the risk management concept, enhanced the cultivation of talent team, strengthened risk management method and tools, accelerated the establishment of the risk management system, carried out risk management throughout the whole process, fully cooperated in developing innovative business, continued to advance the progress of assets and liabilities structure optimization and intensified liquidity risk management to support and ensure the innovative transformation and strategy implementation of the Company.

### 1. Promoting the cultivation of a risk management culture and strengthening risk management philosophy

With a “top-down approach”, the shareholders, the Board and the management of the Company attached high importance to risk management. Driven by regulatory requirements, industrial trends, business development and our own efforts, the Company achieved preliminary result in the establishment of a comprehensive risk management system. The Company has further defined risk management strategy and issued and implemented risk appetite. Through the enhancement of management on risk limit and authorization, the Company further strengthened the establishment of risk monitoring and reporting system, giving a more important role of risk management in business decision and embedding it in business development process. As such, risk management has been playing an increasingly important role in the daily operation and management of the Company.

### 2. Strengthening the risk management methods and tools, speeding up the construction of risk management system

By enhancing the risk management methods and tools, the Company fully identified the risks in a timely manner, prudentially evaluated all kinds of risks, constantly monitored risks, actively responded to various risks, and timely and comprehensively reported risks. The Company continuously enhanced risk evaluation and measurement methods, developed and applied a series of risk management methods and tools, to evaluate and report risks in a quantitative method: enhancing such market risk evaluation techniques such as sensitivity analysis, scenario analysis, VaR, and pressure tests, etc.; carrying out credit risk evaluation method including corporate rating; gradually establishing basic tools for operational risks such as loss database, key risk indicators, risk control and self-evaluation; adopting liquidity risk evaluation measures such as financing capability analysis, asset realization analysis, dynamic and static cash flow forecasts, and stress tests; and exploring and considering risk-correlated overall risk summary techniques.

Based on the principle of “fast effect in the short term and expandable in the long term”, the Company constructed the risk management system cluster with uniform structure, clear layers and well-developed functions to vigorously support the implementation of comprehensive risk management system. The idea of “integrated design, use in advance in case of urgent demands, planning the implementation as a whole and crushing one by one” was adopted for the integrated construction, and the data integration and governance were used as basis and the demands for risk management were used as a guide to design the overall structure of the risk management system and to cooperate in synchronization in completing the transformation of relevant production system and supporting system. As at the End of the Reporting Period, the Company had completed the establishment and operation of the market risk measuring system, internal credit rating system and operational risk management system (phase 1). Liquidity risk management system and financing risk monitoring system have started trial operation after completing the development of core function. Also, the Company has actively prepared the construction of combined financial statements management system (phase 1). All kinds of risk management system have been stably advanced.

### 3. Adopting a risk management throughout the whole process, cooperating fully with the innovative business development

While actively carrying out innovative business, the Company also focused on the risk management throughout the whole process of the innovative business, which mainly included risk valuation for each innovative business, risk control procedure design, risk control indicator design and indicator setting, risk management supporting system design and related construction of risk monitoring information system, and performed effective risk management throughout the whole process of the various innovative business by way of prior assessment and review, risk limits allocation, concurrent risk measurement, independent monitoring and risk reporting, and risk assessment and participation in risk disposal afterwards, etc.

## MANAGEMENT DISCUSSION AND ANALYSIS

#### 4. Continuing to advance the progress of assets and liabilities structure optimization, strengthening the risk management of liquidity

On the basis of balance between safety, liquidity and profitability, the Company actively conducted asset and liability management, continuously optimized asset and liabilities structure, established different levels of liquidity reserves system, further improved internal funding valuation pattern, and increased fund utilization rate, so as to support the healthy and stable development of the Company.

#### 5. Incorporating subsidiaries into the unified risk management framework to strengthen the overall risk management between the Company and subsidiaries

The Company pays serious attention to the vertical management for the risks with subsidiaries and sets up special working team to realize our objectives. As at the End of the Reporting Period, the Company and subsidiaries finished the work of rationalizing the system and supporting amendments and confirmed the appointment of chief risk officer and the related appraisal matters in accordance with the regulatory requirements. Our subsidiaries have established risk management system consistent with the Company's risk appetite and risk management framework, risk authorization, risk indicators and risk reporting system in line with business scale and complexity and have actively advanced the work of system establishment. The Company will continue to deepen the overall risk management for the Company and subsidiaries.

### (III) RISK CONTROL INDICATORS OF NET CAPITAL AND LIQUIDITY RISK MANAGEMENT

The Company has a sound organizational system for risk control indicator management. Management, monitoring, stress test, internal audit review and other related work relating to risk control indicators are carried out by designated staff of related departments. In the first half of 2017, the Company used the new risk control indicator dynamic monitoring system to dynamically monitor the daily net capital and liquidity risk control indicators. The system was developed and completed in accordance with the "Administrative Measures for Risk Control Indicators of Securities Companies" and its supporting rules released by CSRC in 2016. The operation of the system is more stable with more prompt and accurate information assess and realizes real-time and dynamic monitoring and pre-warning of the Company's risk control indicators. In the first half of 2017, the Company prepared liquidity risk report on daily basis and calculated and reported the liquidity coverage rate (LCR) of liquidity risk monitoring indicators and net stable fund rate (NSFR) on a monthly basis strictly following the regulatory requirements. In order to prevent any shock and impact on liquidity risk indicators at the end of the period due to various factors such as maturity of large debt, effective measures have been promptly taken, such as short-term borrowings and issue of long-term bond through prior calculation and predicting liquidity risk indicators at the end of the period, so as to prevent the possible risk of exceeding the limit of liquidity risk indicators. The risk control indicator monitoring in the first half of 2017 showed that the Company's various risk control indicators continued to conform with regulatory provisions. Through the sensitivity analysis and stress test mechanism, based on the market and business development needs, we regularly and irregularly carried out stress tests and sensitivity analysis, analyzed the conditions which may appear in the future and their impact on the net capital and risk control indicators of the Company, and formulated the relevant response measures to ensure that all risk control indicators reached the target levels.

In the first half of 2017, the Company revised and released the "Implementing Rules for the Operation of Dynamic Risk Control Indicators" and "Administrative Measures for Net Capital and Liquidity Risk Control Indicators" according to the amended "Administrative Measures for Risk Control Indicators of Securities Companies" issued by the CSRC and the operation of the new dynamic monitoring system of risk control indicators, which further optimized the management system of risk control indicators.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Company established a dynamic top-up mechanism and made long-term top-up plans for net capital. The Company raised short-term capital to increase its liquidity coverage rate by way of issuing income certificates and the transfer of income right of margin financing and securities lending business, etc. It replenished the long-term available stable fund to increase the net stable fund rate through the issuance of long-term corporate bonds. In the first half of 2017, the Company followed the three-year capital plan formulated in the end of 2014 to maintain its capital scale to be in line with its market position. The Company adhered to prudent financial principles, managed its balance sheets according to the logical thinking in which the needs of business development determines the size of assets, the size of assets is a driving force of financing and an increase in financing enhances the operating leverage rate so as to ensure a dynamic balance between the business development and risk resistance capability of the Company. We made proper capital allocation and debt financing arrangements. When the capital adequacy target continued to fall or there were potentially significant adverse factors, the Company could start the financing programme at an appropriate time based on the market conditions to guarantee the capital adequacy. In January 2017, the A Shares IPO of the Company raised RMB3.954 billion and it further enhanced its net capital strength.

During the Reporting Period, the Company's relevant risk control indicators, including its net capital, have continuously complied with relevant regulatory requirements. As at the End of the Reporting Period, the major risk control indicators of the Company are as follows:

Unit: RMB

Item	30 June 2017	31 December 2016
Net core capital	<b>53,184,554,851.18</b>	50,208,748,426.14
Net supplement capital	<b>0.00</b>	2,900,000,000.00
Net capital	<b>53,184,554,851.18</b>	53,108,748,426.14
Net assets	<b>61,357,181,013.27</b>	56,902,821,184.06
Total risk capital reserves	<b>15,150,993,057.16</b>	14,687,269,852.07
Total on-balance and off-balance assets	<b>146,318,445,201.26</b>	146,829,284,262.85
Risk Coverage Rate (%)	<b>351.03</b>	361.60
Capital Leverage (%)	<b>37.03</b>	34.88
Liquidity Coverage (%)	<b>296.84</b>	218.70
Net Stable Funding Ratio (%)	<b>152.47</b>	138.74
Net Capital/Net Assets (%)	<b>86.68</b>	93.33
Net Capital/Liabilities (%)	<b>63.63</b>	59.81
Net Assets/Liabilities (%)	<b>73.40</b>	64.09
Proprietary Equity Securities and Securities Derivatives Held/Net Capital (%)	<b>29.22</b>	31.14
Proprietary Non-Equity Securities and Securities Derivatives Held/Net Capital (%)	<b>82.94</b>	86.52

### XI. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEES

- Galaxy Futures has a registered capital of RMB1.2 billion, in which the Company holds an equity interest of 83.32%. Its major business scope is to act as agent for the transactions of all domestic futures varieties, to provide investment consultancy and assets management and other services. As at the End of the Reporting Period, the total assets and net assets of Galaxy Futures were RMB17.681 billion and RMB1.921 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB401 million (under Chinese Accounting Standards for Business Enterprises, similarly hereinafter) and RMB117 million (China Accounting Standards for Business Enterprises, similarly hereinafter), respectively.
- Galaxy Capital has a registered capital of RMB1 billion, in which the Company holds an equity interest of 100%. Its major business scope is to utilize proceeds from fund raising activities for project investment and investment management. As at the End of the Reporting Period, the total assets and net assets of Galaxy Capital were RMB1.426 billion and RMB1.061 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB51 million and RMB28 million, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

3. Galaxy Jinhui has a registered capital of RMB1 billion, in which the Company holds an equity interest of 100%. Its major business scope is securities assets management. As at the End of the Reporting Period, the total assets and net assets of Galaxy Jinhui were RMB2.323 billion and RMB1.188 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB322 million and RMB60 million, respectively.
4. Galaxy Yuanhui Investment has a registered capital of RMB1.5 billion, in which the Company holds an equity interest of 100%. Its major business scope is proprietary investment business (including equity investment or bond investment), or to invest in other investment funds related to equity investment and bond investment, and to carry out other business as approved by the CSRC. As at the End of the Reporting Period, the total assets and net assets of Galaxy Yuanhui Investment were RMB1.520 billion and RMB1.513 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB12 million and RMB8 million, respectively.
5. Galaxy International Holdings has a registered capital of HK\$1 billion, in which the Company holds an equity interest of 100%. Its major business scope is to provide securities and futures broker, research of investment banking, asset management, wealth management and loan services in Hong Kong through a number of wholly-owned subsidiaries. As at the End of the Reporting Period, the total assets and net assets of Galaxy International Holdings were RMB5.665 billion and RMB1.235 billion, respectively. During the Reporting Period, it achieved an operating income and a net profit of RMB151 million and RMB44 million, respectively.

### XII. CONNECTED TRANSACTIONS

The Group conducts connected transactions in strict accordance with the Stock Exchange Listing Rules, the SSE Listing Rules, the “Administrative System for the Disclosure of Corporate Information” and the “Administrative Measures for Connected Transactions” of the Company. The Group’s connected transactions are conducted based on the principles of justice, openness and fairness, and the connected transaction agreements are entered into based on the principles of equality, voluntariness, equivalence and compensation. During the Reporting Period, the Group conducted the following non-exempt connected transactions in accordance with the Stock Exchange Listing Rules:

- (i) Securities and Financial Services Framework agreement entered into between the Company and Galaxy Financial Holdings

On 2 May 2013, the Company entered into the Securities and Financial Services Framework Agreement with Galaxy Financial Holdings, pursuant to which, the Company shall provide securities and financial services based on normal commercial terms to Galaxy Financial Holdings and its subsidiaries (“Galaxy Financial Holdings Group”), including (1) securities brokerage services, (2) sales agency services, (3) leasing of exchange trading units and (4) other related securities and financial services. The Group shall receive service charges and commissions from Galaxy Financial Holdings Group for the provision of such services and shall pay interest to Galaxy Financial Holdings Group in respect of its funds entrusted to the Group in connection with such services. The service charges and commissions receivable and interest payable by the Group shall be based on negotiation between the parties with reference to the prevailing market rates and shall be in compliance with the applicable laws and regulations. The framework agreement came into force on the H Share Listing Date (being 22 May 2013) for a term of three years. On 29 December 2015, the Company and Galaxy Financial Holdings entered into the Supplemental Agreement to the Securities and Financial Services Framework Agreement, whereby the term of the framework agreement was renewed to 31 December 2018 and it is renewable for another three years subject to compliance with the relevant laws and the Stock Exchange Listing Rules. Galaxy Financial Holdings is the controlling shareholder and therefore a connected person of the Company. As such, the above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For the three years ending 31 December 2018, the annual caps of the service charges and commissions payable by Galaxy Financial Holdings Group to the Group for the provision of securities and financial services under the framework agreement (as renewed by the supplemental agreement) will be RMB530 million, RMB580 million and RMB640 million, respectively, and the annual caps of the interest payable by the Group to Galaxy Financial Holdings Group for the entrusted funds will be RMB40 million, RMB60 million and RMB80 million, respectively.

As the applicable percentage ratios under the Stock Exchange Listing Rules in respect of the annual caps are more than 0.1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the independent shareholders’ approval requirement under the Stock Exchange Listing Rules.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the income received and expenses paid by the Group in respect of the securities and financial services provided to Galaxy Financial Holdings Group are as follows:

Unit: RMB million

	From January to June 2017	Annual cap for 2017
<b>Income (inclusive of tax)</b>		
Securities brokerage services	5.65	
Sales agency services	19.85	
Leasing of exchange trading units	5.78	
Other related securities and financial services	3.03	
<b>Total</b>	<b>34.31</b>	580
<b>Expenses</b>		
Interest expenses	0.48	
<b>Total</b>	<b>0.48</b>	60

## MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) Framework Agreement in relation to the Subscription of Public Funds and Segregated Accounts and the Dealer-quoted Bond Repurchase Transactions between the Company and Galaxy Fund

On 24 February 2016, the Company entered into the Framework Agreement for Purchase of Public Funds and Segregated Accounts and Dealer-quoted Bond Repurchase Transactions with Galaxy Fund, pursuant to which the Company will (1) subscribe for or redeem public funds and segregated accounts managed by Galaxy Fund and pay subscription fee or redemption fee in relation thereto to Galaxy Fund, and (2) conduct dealer-quoted bond repurchase transactions with Galaxy Fund in the inter-bank market and pay financing interests to Galaxy Fund, during the term of the framework agreement. The subscription price or redemption price is the unit net price of the fund products on the subscription or redemption date, which is determined with reference to the average market rate. The financing interests shall be determined by the parties through arm's length negotiation based on the prevailing market price pursuant to the Implementing Rules for the Operation of Bond Investment Business in the Inter-Bank Market of the Company. The framework agreement is for a term of three years from the date of approval by the Shareholders at the general meeting, and may be renewed for another three years subject to compliance with the relevant laws and the Stock Exchange Listing Rules. Galaxy Fund is a non-wholly owned subsidiary of Galaxy Financial Holdings, and is therefore a connected person of the Company. As such, the above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For each of the three years ending 31 December 2018, the cap for the subscription of public funds and segregated accounts by the Company from Galaxy Fund (including the subscription price and the corresponding subscription fee) is RMB2,000 million; the cap for redemption of public funds and segregated accounts by the Company from Galaxy Fund (including the redemption amount and the redemption fee) is RMB2,000 million; the cap for the value of the bond assets pledged by the Company to Galaxy Fund is RMB2,020 million; the cap for the amount of financing provided by Galaxy Fund to the Company is RMB2,000 million; and the cap for the financing interest payable by the Company to Galaxy Fund is RMB1.8 million.

As the applicable percentage ratios as set out in the Stock Exchange Listing Rules represented by the annual caps of the continuing connected transactions are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent Shareholders' approval requirement under the Stock Exchange Listing Rules. Pursuant to the Administrative Measures for Connected Transactions, however, such transactions are subject to approval by the Shareholders' general meeting of the Company. Independent shareholders of the Company had approved the continuing connected transactions at the first extraordinary general meeting of the Company for 2016 held on 24 March 2016.

During the Reporting Period, the amounts of transactions between the Company and Galaxy Fund under the framework agreement are as follows:

	From January to June 2017	Annual cap for 2017
Subscription amount of public funds and segregated accounts	520.99	2,000
Redemption amount of public funds and segregated accounts	21.06	2,000

Unit: RMB million



## MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) Framework Agreement in relation to the Dealer-quoted Bond Repurchase Transactions between the Company and Galaxy Financial Holdings

On 27 June 2016, the Company entered into the Framework Agreement in relation to the Dealer-quoted Bond Repurchase Transactions with Galaxy Financial Holdings, pursuant to which the Company will conduct dealer-quoted bond repurchase transactions with Galaxy Financial Holdings in the inter-bank market and pay financing interests to Galaxy Financial Holdings. The financing interests shall be determined by the parties through arm's length negotiation based on the prevailing market price pursuant to the Implementing Rules for the Operation of Bond Investment Business in the Inter-Bank Market of the Company. The framework agreement shall become effective upon signing by both parties and shall remain in force until 31 December 2017. The above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For each of the two years ending 31 December 2017, the cap for the value of the bond assets pledged by the Company to Galaxy Financial Holdings is RMB560 million; the cap for the amount of financing provided by Galaxy Financial Holdings to the Company is RMB500 million; and the cap for the financing interest payable by the Company to Galaxy Financial Holdings is RMB1.75 million.

As the applicable percentage ratios (either alone or together with the dealer-quoted bond repurchase transactions between the Company and Galaxy Fund) as set out in the Stock Exchange Listing Rules represented by the annual caps of the continuing connected transactions are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent Shareholders' approval requirement under the Stock Exchange Listing Rules.

During the Reporting Period, the amounts of transactions between the Company and Galaxy Financial Holdings under the framework agreement are as follows:

Unit: RMB million

	<b>From January to June 2017</b>	<b>Annual cap for 2017</b>
Amount of financing provided by Galaxy Financial Holdings to the Company	400.40	500
Value of bonds pledged by the Company to Galaxy Financial Holdings	440.00	560
Financing interests payable by the Company to Galaxy Financial Holdings	0.28	1.75

## MANAGEMENT DISCUSSION AND ANALYSIS

- (iv) Securities and Financial Products Transactions Framework Agreement between the Company and Galaxy Financial Holdings

On 6 June 2017, the Company entered into the Securities and Financial Products Transactions Framework Agreement with Galaxy Financial Holdings, pursuant to which, the Group will conduct securities and financial products transactions with Galaxy Financial Holdings Group on normal commercial terms in its ordinary course of business, which mainly include: securities products with fixed income features, fixed income related derivative products, equity related products, financing transactions, and other related securities and financial products transactions permitted by the regulatory authorities. The securities and financial products transactions, whether conducted in the PRC interbank bond market, the PRC exchange market or the open-ended fund market, shall be conducted on normal commercial terms at the prevailing market prices or market rates of similar transactions with independent third parties. The framework agreement became effective on 12 July 2017 upon obtaining the approvals from the independent Shareholders of the Company and the shareholders of Galaxy Financial Holdings (i.e. Huijin and the Ministry of Finance of the PRC), and will expire on 31 December 2019. The above transactions constitute continuing connected transactions of the Company under the Stock Exchange Listing Rules.

For each of the three years ending 31 December 2019, the annual cap of the total cash inflow of the Group generated from the securities and financial products transactions (excluding financing transactions) under the framework agreement is RMB63,000 million, RMB75,000 million and RMB87,000 million, respectively; the annual cap of the total cash outflow of the Group generated from the securities and financial products transactions (excluding financing transactions) under the framework agreement is RMB57,000 million, RMB70,000 million and RMB79,000 million, respectively. For each of the three years ending 31 December 2019, the maximum daily balance (including the accrued interest) of the financing provided by Galaxy Financial Holdings Group to the Group through collateralized securities repurchase transactions under the framework agreement is RMB10,500 million.

As the applicable percentage ratios as set out in the Stock Exchange Listing Rules represented by the annual caps of the continuing connected transactions are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under the Stock Exchange Listing Rules. Independent shareholders of the Company had approved the continuing connected transactions at the annual general meeting of the Company held on 22 June 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## XIII. PERFORMANCE OF CONTRACTS OF SIGNIFICANCE

### 1. Leases

During the Reporting Period, the Group and China Galaxy Investment Management Company Limited entered into a property lease contract, under which the rent for the period from January to June 2017 was RMB78,208,267.28. The Group and TravelSky Technology Limited entered into a co-operation agreement (plant lease), under which the rent for the period from January to June 2017 was RMB9,554,812.64. The Group and China Unicom entered into a property lease contract, under which the rent for the period from January to June 2017 was RMB5,561,697.42. The abovementioned contract amounts shall be paid quarterly or monthly. Save for the above, during the Reporting Period, the Company had not engaged in any material lease (over RMB10 million) and no such matters were carried forward to the Reporting Period from the previous period.

### 2. Guarantees

<b>External guarantees by the Company (excluding guarantees for its subsidiaries)</b>	
Total amount of guarantee during the Reporting Period (excluding guarantees for its subsidiaries)	–
Total balance of guarantee as at the End of the Reporting Period (A) (excluding guarantees for its subsidiaries)	–
<b>Guarantees provided by the Company for its subsidiaries</b>	
Total amount of guarantees provided for its subsidiaries during the Reporting Period	RMB1,000,000,000
Total balance of guarantees provided for its subsidiaries as at the End of the Reporting Period (B)	RMB1,000,000,000
<b>Total amount of guarantees provided by the Company (including those provided for its subsidiaries)</b>	
Total amount of guarantees (A+B)	RMB1,000,000,000
Total amount of guarantees as a percentage of the Company's net assets (%)	1.63
Of which:	
Amount of guarantees provided for shareholders, de facto controllers and related parties (C)	–
Amount of debt guarantees provided directly or indirectly for companies with gearing ratio of over 70% (D)	–
Total amount of guarantees in excess of 50% of net assets (E)	–
Sum of the above three guarantees (C+D+E)	–
Description of outstanding guarantees which may incur several and joint liability	None
Notes on guarantees	Note: In August 2016, the Company provided net capital guarantee for Galaxy Jinhui, a subsidiary of the Company, amounting to RMB1 billion to meet the needs of its business development.

# CHANGE IN ORDINARY SHARES AND OTHER SITUATION

## I. CHANGE IN SHARE CAPITAL

Unit: Share(s)

	Before		Change (+, -)					After	
	Amount	Percentage (%)	Issue of new share	Bonus share	Conversion from reserves	Other	Sub-total	Amount	Percentage (%)
I. Shares subject to trading restriction	5,846,274,124	61.3	-	-	-	-	-	5,846,274,124	57.7
1. Owned by the state	-	-	-	-	-	-	-	-	-
2. Owned by state-owned legal persons	5,479,635,441	57.5	-	-	-	-	-	5,479,635,441	54.1
3. Owned by other domestic parties	366,638,683	3.8	-	-	-	-	-	366,638,683	3.6
Of which: Owned by domestic non-legal persons	345,558,683	3.6	-	-	-	-	-	345,558,683	3.4
Owned by domestic natural persons	21,080,000	0.2	-	-	-	-	-	21,080,000	0.2
4. Owned by foreign shareholders	-	-	-	-	-	-	-	-	-
Of which: Owned by overseas legal persons	-	-	-	-	-	-	-	-	-
Owned by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Circulating shares not subject to trading restriction	3,690,984,633	38.7	600,000,000	-	-	-	600,000,000	4,290,984,633	42.3
1. RMB ordinary shares	-	-	600,000,000	-	-	-	600,000,000	600,000,000	5.9
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	3,690,984,633	38.7	-	-	-	-	-	3,690,984,633	36.4
4. Other	-	-	-	-	-	-	-	-	-
III. Total number of shares	9,537,258,757	100	600,000,000	-	-	-	600,000,000	10,137,258,757	100

On 23 January 2017, the Company carried out initial public offering of 600,000,000 A Shares on the SSE. After this issue of shares, total share capital of the Company amounted to 10,137,258,757 Shares, of which: 6,446,274,124 Shares were A Shares and 3,690,984,633 Shares were H Shares.

# CHANGE IN ORDINARY SHARES AND OTHER SITUATION

## II. SHAREHOLDERS

### (i) Total number of shareholders:

Number of ordinary shareholders as at the End of the Reporting Period 153,818 in total  
of which: 152,701 holders of A Shares  
1,117 holders of H Shares

Preference shareholders with voting rights restored as at the End of the Reporting Period 0

### (ii) Shareholdings Of The Top 10 Shareholders And Top 10 Holders Of Circulating Shares (Or Shareholders Not Subject To Trading restriction) As At The End Of The Reporting Period

Unit: Share(s)

Name of Shareholders (Full name)	Shareholdings of the top 10 shareholders						
	Change in number of Shares held during Reporting Period	Number of Shares held as at the End of Reporting Period	Percentage (%)	Number of Shares subject to trading moratorium held	Pledged or frozen		Nature of Shareholders
					Status of Shares	Number of Shares held	
China Galaxy Financial Holdings Limited	-57,132,376	5,160,610,864	50.91	5,160,610,864	-	-	State-owned legal person
HKSCC Nominees Limited	1,991,000	3,688,434,916	36.38	-	-	-	Overseas legal person
PICC Property and Causality Company Limited	-	114,381,147	1.13	114,381,147	-	-	Stated-owned legal person
Shanghai Rural Commercial Bank Co., Ltd.	-	110,000,000	1.09	110,000,000	-	-	Domestic non-State-owned legal person
Bank of Lanzhou Co., Ltd	-	90,514,398	0.89	90,514,398	-	-	Domestic non-State-owned legal person
Shanghai CIIC Electric Technology Co., Ltd.	-	60,000,000	0.59	60,000,000	-	-	Domestic non-State-owned legal person
Account No. 1 of National Council for Social Security Fund	58,726,267	58,726,267	0.58	58,726,267	-	-	Stated-owned legal person
China Resources Co., Ltd.	-424,897	38,379,809	0.38	38,379,809	-	-	State-owned legal person
Joincare Pharmaceutical Industry Group Co., Ltd	-	28,983,000	0.29	28,983,000	-	-	Domestic non-State-owned legal person
Langfang Kangcheng Hejia Technology Industry Development Company Limited	20,841,000	20,841,000	0.21	-	-	-	Domestic non-State-owned legal person

Note: The Company was listed on the SSE on 23 January 2017. According to the Approval of the Ministry of Finance Regarding Transfer Proposal of State-owned Shares of China Galaxy Securities Co., Ltd. (Cai Jin Han [2016] No. 181), the state-owned shareholders, including China Galaxy Financial Holdings Limited and China Resources Co., Ltd., transferred parts of their shares to the social security fund to perform their obligation of transfer of state-owned shares.

## CHANGE IN ORDINARY SHARES AND OTHER SITUATION

Unit: Share(s)

### Shareholdings of the top 10 shareholders not subject to trading restriction

Name of Shareholders	Number of Shares not subject to trading restriction held	Type and number of Shares held	
		Type	Number
HKSCC Nominees Limited	3,688,434,916	H Shares	3,688,434,916
Langfang Kangcheng Hejia Technology Industry Development Company Limited	20,841,000	A Shares	20,841,000
Bank of China Limited – China Merchants CSI All Share Securities Company Index Classified Securities Investment Fund	8,526,669	A Shares	8,526,669
Ling Huiming	6,000,000	A Shares	6,000,000
China Securities Finance Corporation Limited	4,733,400	A Shares	4,733,400
Industrial and Commercial Bank of China Limited – SWS Mu Shenyin Wanguo Securities Industry Index Classification Investment Fund	4,464,753	A Shares	4,464,753
Industrial and Commercial Bank of China – SSE 50 Trading Index Securities Investment Open-ended Fund	4,436,100	A Shares	4,436,100
Yin Jin	3,921,200	A Shares	3,921,200
Wang Mingxia	3,558,812	A Shares	3,558,812
Xu Dongzuo	3,541,500	A Shares	3,541,500
Details of the connected relationship amongst, or concerted actions between, the above shareholders:		Save for the fact that Industrial and Commercial Bank of China Limited acts as the custodian of “Industrial and Commercial Bank of China Limited – SWS Mu Shenyin Wanguo Securities Industry Index Classification Investment Fund” and “Industrial and Commercial Bank of China – SSE 50 Trading Index Securities Investment Open-ended Fund”, the Company is not aware of any relationship between among shareholders/whether such shareholders are parties to any concerted action.	
Preference shareholders with voting rights restored and number of shares held		Nil.	

## OTHER INFORMATION

### I. INTERIM DIVIDEND

The Board does not recommend to declare the payment of interim dividend to the shareholders of the Company for the six months ended 30 June 2017.

### II. INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

So far as the Directors are aware, as at the End of the Reporting Period, none of the Directors, Supervisors and chief executive of the Company has interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) which are required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

### III. RIGHTS OF THE DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period and as at the End of the Reporting Period, there was no arrangement to which the Company, its subsidiaries or holding company or a subsidiary of its holding company was a party and the purpose or one of the purposes of which was to benefit any Director, Supervisor, their respective spouses or any of their minor children under 18 years of age through acquisition of any shares or debentures of the Company or any other body corporation.

## OTHER INFORMATION

### IV. INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS

So far as Directors are aware after making all reasonable enquiries, as at the End of the Reporting Period, the following persons (other than the Directors, Supervisors or chief executive of the Company) held interests or short positions in shares or underlying shares which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of substantial shareholders	Class of shares	Nature of interest	Number of shares held (share) (Note 1)	Percentage of the total number of issued shares of the Company (%)	Percentage of the total number of issued A Shares/ H Shares of the Company (%)	Long positions/short positions/shares available for lending
Huijin (Note 2)	A Shares	Interests of controlled corporation	5,160,610,864	50.91	80.06	Long position
Galaxy Financial Holdings (Note 2)	A Shares	Beneficial owner	5,160,610,864	50.91	80.06	Long position
Franklin Templeton Sealand Fund Management Co., Ltd	H Shares	Investment manager	217,087,000	2.14	5.88	Long position
Wenze International Investment Limited (Notes 3 & 4)	H Shares	Beneficial owner	219,524,000	2.17	5.95	Long position
Wang Yili (Note 3)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
Yan Yuqing (Note 4)	H Shares	Interests of controlled corporation	219,524,000	2.17	5.95	Long position
BlackRock, Inc. (Note 5)	H Shares	Interest of controlled corporation	193,459,619	1.91	5.24	Long position
	H Shares	Interest of controlled corporation	7,477,000	0.07	0.20	Short position

Note 1: According to Section 336 of the SFO, when the shareholdings of the shareholders in the Company change, it is not necessary for the shareholders to notify the Company and the Hong Kong Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the shareholders in the Company may be different from the shareholdings filed with the Hong Kong Stock Exchange.

Note 2: Huijin directly holds approximately 78.57% equity interest in Galaxy Financial Holdings and is therefore deemed to be interested in 5,160,610,864 A Shares directly held by Galaxy Financial Holdings.

Note 3: Wang Yili is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

Note 4: Yan Yuqing is interested in 50% shares of Wenze International Investment Limited and is hence deemed to be interested in the 219,524,000 H Shares held by Wenze International Investment Limited.

Note 5: BlackRock, Inc. holds 193,459,619 H Shares in long position and 7,477,000 H Shares in short position through various entities under its control. In addition, 200,908 H Shares in long position and 2,666,500 H Shares in short position involve derivatives, of which the category is: unlisted derivatives – cash settled.

Save as disclosed above, as at the End of the Reporting Period, the Company was not aware of any other person (other than Directors, Supervisors and chief executive of the Company) who held interests or short positions in shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.



## OTHER INFORMATION

### V. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in the sub-section “VI. Financing of the Company” under the section “Management Discussion and Analysis”, the Company and its subsidiaries did not purchase, sell or redeem any of its listed securities during the Reporting Period.

### VI. COMPLIANCE WITH THE CG CODE

As a company listed in Hong Kong and Shanghai and incorporated in Mainland China, the Company strictly conforms to the requirements of the laws, regulations and regulatory documents of Mainland China and the jurisdictions where the Company is listed, operates in compliance with the law, and is continually dedicated to maintain and improve the outstanding social image of the Company. According to the Company Law, the Securities law and other laws, regulations and regulatory requirements, the Company has established a power-balanced and duty-segregated governance structure between the general meeting, the Board of Directors, the Supervisory Committee and the management, which will ensure the operation of the Company in a regulated manner. The convening and voting process of the general meeting and the meeting of the Board of Directors and the meeting of the Supervisory Committee are legal and valid. The information disclosed by the Company is true, accurate, timely and complete. The investor relationship is managed effectively and the corporate governance is scientific, rigorous and orderly.

During the Reporting Period, the Company strictly complied with the CG Code, followed all code provisions and met the requirements of the majority of the recommended best practices set out in the CG Code.

### VII. COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for securities transactions by Directors and Supervisors. The Company has made specific enquiries to all Directors and Supervisors with respect to their compliance with the Model Code, and all Directors and Supervisors confirmed that they have complied with all of the codes and requirements set out in the Model Code during the Reporting Period.

### VIII. OPERATION OF THE BOARD AND ITS SPECIAL COMMITTEES

The Board currently comprises 11 Directors, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

The Strategy and Development Committee, Risk Management Committee, Nomination and Remuneration Committee and Audit Committee have been established under the Board. The responsibilities of each committee are clearly divided and defined. The committees assist the Board in conducting work within the terms of reference as specified in the procedural rules of meetings, and are accountable to and report to the Board. The majority of the members of the Nomination and Remuneration Committee and the Audit Committee are independent non-executive Directors, and the chairman of each of the two committees is an independent non-executive Director.

Special committees	Chairman	Members
Strategy and Development Committee	Chen Gongyan	Gu Weiguo, Du Ping, Shi Xun, Zhang Jinghua, Wu Chengming, Liu Feng, Luo Lin, Wu Yuwu, Chi Fulin, Li Chaoyang
Risk Management Committee	Shi Xun	Gu Weiguo, Du Ping, Zhang Jinghua, Wu Chengming, Liu Feng, Li Chaoyang
Nomination and Remuneration Committee	Liu Feng	Luo Lin, Wu Yuwu, Chi Fulin, Shi Xun, Li Chaoyang
Audit Committee	Luo Lin	Liu Feng, Wu Yuwu, Chi Fulin, Shi Xun, Zhang Jinghua

All Directors performed their duties faithfully and diligently in accordance with the relevant requirements of laws, regulations and the Articles of Association, so as to protect the interests of the Company and its shareholders. During the Reporting Period, all Directors faithfully and diligently performed their duties entitled by laws and regulations, and have protected the overall interests of the Company, especially the legitimate interests of small and medium shareholders.

During the Reporting Period, the Board convened 1 annual general meeting, 1 extraordinary general meeting and submitted 13 proposals for shareholders' consideration. The Board actively organized, supervised and followed up the implementation of the resolutions passed at general meetings. The Board has convened 9 Board meetings to consider 34 proposals. The Strategy and Development Committee convened 2 meetings, the Risk Management Committee convened 1 meeting, the Nomination and Remuneration Committee convened 4 meetings, and the Audit Committee convened 5 meetings. The special committees gave full play to their own professional strengths, provided strong support for the decision-making of the Board and further enhanced the efficiency and level of decision-making of the Board.

The Audit Committee and the management have reviewed the accounting policies adopted by the Company, discussed matters including risk management, internal control and financial statements of the Company, and reviewed the consolidated interim financial information of the Company for the six months ended 30 June 2017. The external auditor of the Company has reviewed the interim financial information in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The financial information set out in this interim report is unaudited.

## OTHER INFORMATION

### IX. OPERATION OF THE SUPERVISORY COMMITTEE

The Supervisory Committee currently comprises 5 Supervisors, including 2 employee Supervisors.

Supervisory Committee	Chairman	Supervisors
Supervisors	Chen Jing	Zhong Cheng, Tao Libin, Liu Zhiyi (employee Supervisor), Chen Jijiang (employee Supervisor)

The Supervisors performed their duties diligently in accordance with relevant laws and regulations, including the Company Law and Securities Law of the PRC, and relevant requirements of the Articles of Association. The Supervisory Committee supervised the operation of the Company so as to protect the legitimate interests of the Company and its shareholders. During the Reporting Period, the Supervisory Committee convened 3 meetings.

### X. MATERIAL LITIGATIONS

During the Reporting Period, the Company had no new material litigation or arbitration involving an amount of over RMB10 million and representing 10% the latest audited net assets of the Company.

Of the three material litigations as disclosed in the 2016 annual report of the Company, final decision has been made for one, which has been disclosed in the 2016 annual report. For the remaining two material litigations, the update of their status is as follows:

**1. Civil action brought by Sichuan Trust Co., Ltd. (四川信託有限公司) against eight entities and individuals including Weihai Zhongtian Real Estate Co., Ltd. (威海中天房地產有限公司) in relation to an entrusted loan agreement dispute**

As disclosed in the 2016 annual report of the Company, currently, the case was in the first instance process.

**2. Civil proceedings arising from Yu Xiaolei's illegal absorption of public deposits**

Following the filing made on 26 January 2016, Tang Latou applied to Jiangsu Provincial Higher People's Court for a retrial. On 19 April 2017, Jiangsu Provincial Higher People's Court reached its decision and rejected the retrial application by Tang Latou.

On 20 July 2017, the Company received the statement of claims by Tang Latou, served by Jianye District People's Court of Nanjing against Jiangdongzhong Road branch in Nanjing and the Company, in which Tang Latou alleges that the branch and the Company did not fully perform the management obligations and request the Court to order the branch and the Company to compensate its loss of RMB8,614,000. The Court has been scheduled to commence hearing for this case on 27 September 2017.

The Company considers that the above legal proceedings will not have direct material adverse impact on the business, financial position or operating results of the Company.

## OTHER INFORMATION

### **XI. PUNISHMENT OR PUBLIC CENSURE, INCLUDING PUNISHMENT IMPOSED OR PUBLIC CENSURE MADE BY THE CSRC, SECURITIES ASSOCIATION OF CHINA, STOCK EXCHANGES AND FINANCIAL FUTURES EXCHANGE AGAINST THE COMPANY AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, SUBSTANTIAL SHAREHOLDERS AND DE FACTO CONTROLLERS**

During the Reporting Period, the Directors, Supervisors and senior management of the Company had not been punished or publicly condemned by the CSRC, Securities Association of China, stock exchanges, financial futures exchange, finance and taxation, foreign exchange and auditing authorities.

During the Reporting Period, the Company had not been subject to any administrative penalties by the CSRC, Securities Association of China, stock exchanges, financial futures exchanges, finance and taxation, foreign exchange and auditing authorities.

### **XII. ADMINISTRATIVE REGULATORY MEASURES, SELF-REGULATORY MEASURES AND RELATED MATTERS AGAINST THE COMPANY AND ITS BRANCHES**

During the Reporting Period, the Company continued to enhance the promptness, appropriateness and effectiveness of dealing with risky matters and further optimized the Company's related system and procedures to avoid compliance risk. During the Reporting Period, the Company and its branches were subject to the following administrative regulatory measures and related matters:

#### **(I) Qinhuangdao Securities Branch was imposed administrative supervision measures of "increasing the number of internal compliance inspection" by Hebei Regulatory Bureau of the CSRC**

During the Reporting Period, the Qinhuangdao Securities Branch of the Company received "The decision of measures for increasing the number of internal compliance inspection against Qinhuangdao Securities Branch of China Galaxy Securities Co., Ltd." ([2017] No. 3) from Hebei Regulatory Bureau of the CSRC. In view of the deficient internal control of the Qinhuangdao Securities Branch of the Company, Hebei Regulatory Bureau of the CSRC decided to impose administrative supervision measures of requiring the increase in the number of internal compliance inspection on the Qinhuangdao Securities Branch.

In response to such supervision measures, the Company has taken the following rectification measures: site inspection was conducted at the Qinhuangdao Securities Branch; all branches were required to conduct corresponding self-inspection; the counter authority management and seal management of the branches were further strengthened and the procedures for depositing and withdrawal of funds were strictly implemented to prevent moral risks of employees.

#### **(II) Sponsorship business was imposed self-regulatory measure of "asking for submitting written commitment" by National Equities Exchange and Quotations**

During the Reporting Period, the Company received "The decision of adoption of self-regulatory measure by China Galaxy Securities Co., Ltd. (Gu Zhuan Xi Tong Fa [2017] No. 62, hereinafter referred to as the "Decision"). Decision stated that the Company, as the host broker of Beijing Rising Information Technology Co., Ltd., did not pay attention to the financial information in the conclusive Audit Report used in Public Transfer Prospectus during the examination, in which errors was found in part of the information in the financial statements of Public Transfer Prospectus. In such regard, the Company did not perform duties of due diligence and did not guarantee that the information disclosed in the listing application documents was true, accurate and complete. Therefore, National Equities Exchange and Quotations decided to impose self-regulatory measure of "asking for submitting written commitment" on the Company.

## OTHER INFORMATION

Upon receiving the Decision, the Company severely criticized the related staff with education and organized various learning courses and trainings for New OTC Board business departments to raise their awareness of regulatory requirements and to further secure staff's full implementation of regulatory rules on operation staff. In addition, the Company further enhanced and implemented a series of systems for the purpose of improving the quality of the project documents according to the identified issues in such event and updated regulatory measures, including "Quality Control and Management Rules for the Documents for New OTC Board Listing Business" and "Notice of Concerning Matters of Further Enhancing the Document Quality of New OTC Board Business". Furthermore, the Company practically refined our review standards, drafting standards, document quality appraisal and rewards and punishment mechanism and optimized the reminding, supervision and cross-check mechanism for internal work of the departments undertaking the projects to ensure the accuracy of the contents of listing application documents for avoiding the reoccurrence of similar event.

### **(III) Few practitioners (mainly securities brokers) engaged in stock transaction**

On 13 April 2017, CSRC released "The decision of adoption of measures by China Galaxy Securities Co., Ltd. to rectify the situation, increase the frequency of internal compliance review and submit compliance review report" (Ji Gou Bu Han [2017] No. 42), which states that the Company's practitioners engaged in stock transaction and order the Company to rectify the situation, increase the frequency of internal compliance review and submit compliance review report.

The Company seriously adopted a series of rectification measures for responding to the issues raised by regulatory authority. Firstly, the Company continuously organized practice standards compliance trainings for the practitioners, provided and gave compliance multi-layer and multi-aspect training and warning, by way of learning and examination, through onsite and offsite self-learning and training, requested practitioners to sign compliance undertaking and raise awareness of compliance of practitioners. Second, each department and branch further enhanced the effectiveness of regulation and management measures for the compliance of investment activities of practitioners in each department and branch, which were required to promptly report, update and continuously manage the information and account activity of their own practitioners. Third, the Company extended the scope of review, increased the review frequency, further optimized the review procedures, semi-annually checked the securities accounts activities of all staff (including securities brokers) through China Securities Depository and Clearing system, performed real-time check against the securities accounts activities of newly recruited staff and required practitioners to transfer or designate the custodian of their securities accounts to the operation department of the Company. Fourth, the Company strengthened daily monitor on the investment activities of the staff with monitoring system to promptly identify abnormal transaction and deal with the situation. Fifth, the Company strengthened the punishment against those staff violating investment regulations and warned and criticized the staff not transferring or designating the custodian of their securities accounts to the operation department of the Company or not reporting their activities within the period. For those who did not comply with the Company's regulations or carry out investment in violation of rules after warning, the Company would seriously deal with the situation in accordance with Staff Punishment Measures.

### **(IV) Several operation staff did not report the actual mobile phone they use and place order on behalf of client**

During the Reporting Period, the Company found out an abnormal situation in a daily inspection, that many customers of Zhang Chao, the account manager in Wenzhou Danan Street Securities Branch, were using a same mobile phone to place order. Upon a further inspection and inquiring Zhang Chao, it has confirmed that the mobile phone that Zhang Chao actually used was not the same as that he reported to the Company and Zhang Chao admitted that he used the same mobile phone with Zhang Guangsen, placed transaction order on behalf of some clients with such phone and borrowed someone's securities account to carry out equity transaction.

## OTHER INFORMATION

The Company seriously handled the case according to relevant requirements and the Compliance Undertaking Letter signed by Zhang Chao. The Company ordered Zhang Chao, the account manager, to resign and release his labor contract, revoked Zhang Chao's compliance bonus for the year 2016, revoked part of the performance bonus of the compliance manager and chief marketing officer respectively for the year 2016 and promptly submitted the report on internal investigation and rectification through CISP system for the above situation and solution. In addition, the Company has adopted the following measures to further enhance the management on staff's code of conduct: firstly, the Company enhanced management on staff's mobile phone and required staff to report all mobile phone number in use for facilitating monitoring; secondly, the Company increased the frequency of staff training to give a warning signal; thirdly, the Company paid more attention to analyze and enquire the contents of major letter concerning customer's abnormal transaction and strengthened investor education according to the analysis result; fourth, the Company fully investigated the consistency of transaction activities of various customers of the same staff through data analysis and visited clients more frequently.

### XIII. EVALUATION RESULTS OF THE COMPANY BY SECURITIES REGULATORY AUTHORITY

In the evaluation of securities companies of 2017 carried out by the CSRC, the Company was assigned an AA rating in A class.

## OTHER INFORMATION

### XIV. CHANGE IN DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING AND AFTER THE REPORTING PERIOD

1. On 3 March 2017, the “Proposal on Termination of Appointment of Ms. Chen Jing (陳靜) as a Member of the Executive Committee and the Vice President of the Company”, was approved at the 21st meeting of the third session of the Board, and Ms. Chen Jing no longer acted as a member of the Executive Committee and the vice president of the Company.

On 5 May 2017, the “Proposal on Election of Ms. Chen Jing as a Member of the Third Session of the Supervisory Committee of the Company”, was approved at the first extraordinary general meeting of 2017 and Ms. Chen Jing was elected as the member of the third session of the Supervisory Committee of the Company.

On 5 May 2017, the “Proposal on Election of Ms. Chen Jing as the Chairperson of the Third Session of the Supervisory Committee of the Company” was approved at the second extraordinary meeting of the supervisory committee of 2017, and Ms. Chen Jing was elected as the chairperson of the third session of the supervisory committee of the Company.

2. On 3 March 2017, the “Proposal on Appointment of Ms. Wei Xiaohui (衛筱慧) as a Member of the Executive Committee and the Vice President of the Company”, was approved at the 21st meeting of the third session of the Board, and Ms. Wei Xiaohui was appointed as member of the Executive Committee and vice president of the Company for a term until the expiry of the office of the third session of the Board.
3. On 30 June 2017, the “Proposal on Appointment of Mr. Luo Liming (羅黎明) as a Member of the Executive Committee and the Chief Internet and IT Officer of the Company”, was approved at the 29th meeting of the third session of the Board, and Mr. Luo Liming has been appointed as member of Executive Committee and Chief Internet and IT Officer of the Company for a term until the expiry of the office of the third session of the Board.
4. On 14 August 2017, the Company received a resignation letter from Mr. Chi Fulin (遲福林). Mr. Chi Fulin resigned from his positions as an independent director of the Company and a member of each of the Strategy and Development Committee, the Audit Committee and the Nomination and Remuneration Committee due to his intention to focus on his other work commitments and engagements. Since the resignation of Mr. Chi Fulin will result in the number of independent directors of the Company falling below the quorum as required by law, Mr. Chi Fulin will, in accordance with the relevant laws and regulations and the Articles of Association, continue to perform his duties as an independent director and relevant duties as a member of the various Board committees until the appointment of new independent director is approved at the shareholders’ general meeting of the Company.
5. On 30 August 2017, the “Proposal on Nomination of Mr. Liu Ruizhong (劉瑞中) as a Candidate for Independent Director of the Company” was passed at the 31st meeting of the third session of the Board, during which it was agreed to nominate Mr. Liu Ruizhong as a candidate for independent director of the Company. The proposal will be submitted to the shareholders’ general meeting of the Company for consideration and approval.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



**TO THE BOARD OF DIRECTORS OF CHINA GALAXY SECURITIES CO., LTD.**

*(Incorporated in the People's Republic of China with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Galaxy Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 100, which comprise the condensed consolidated statement of financial position as at 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

30 August 2017



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended 30 June	
		2017 (Unaudited)	2016 (Unaudited)
Revenue			
Commission and fee income	4	2,864,981	4,078,490
Interest income	5	3,441,897	3,784,585
Net investment gains	6	1,379,579	1,354,861
		<b>7,686,457</b>	9,217,936
Other income and gains		17,937	33,592
Total revenue and other income		<b>7,704,394</b>	9,251,528
Depreciation and amortization	7	(106,931)	(99,324)
Staff costs	8	(2,000,529)	(2,352,820)
Commission and fee expenses	9	(117,514)	(143,765)
Interest expenses	10	(1,910,202)	(2,692,756)
Other operating expenses	11	(717,896)	(1,016,722)
Impairment losses	12	(234,124)	(10,591)
Total expenses		<b>(5,087,196)</b>	(6,315,978)
Share of result of a joint venture		–	–
Profit before income tax		<b>2,617,198</b>	2,935,550
Income tax expense	13	(485,983)	(664,490)
Profit for the period		<b>2,131,215</b>	2,271,060
Attributable to:			
Owners of the Company		<b>2,112,212</b>	2,255,461
Non-controlling interests		<b>19,003</b>	15,599
		<b>2,131,215</b>	2,271,060
Earnings per share attributable to owners of the Company (in RMB)			
– Basic	14	<b>0.21</b>	0.24

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
Profit for the period	<b>2,131,215</b>	2,271,060
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurement of defined benefit obligation	–	(1,404)
	–	(1,404)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Available-for-sale financial assets		
– Fair value (loss)/gains	<b>298,724</b>	(1,598,896)
– Reclassification of gains to profit or loss on disposals	<b>(231,784)</b>	(174,237)
– Reclassification of losses to profit or loss on impairment	<b>194,377</b>	–
– Income tax relating to items that may be classified subsequently	<b>(65,329)</b>	443,283
Subtotal	<b>195,988</b>	(1,329,850)
Exchange differences arising on translation of foreign operations	<b>(38,585)</b>	21,439
	<b>157,403</b>	(1,308,411)
Other comprehensive income for the period, net of income tax	<b>157,403</b>	(1,309,815)
Total comprehensive income for the period	<b>2,288,618</b>	961,245
Attributable to:		
Owners of the Company	<b>2,269,615</b>	945,646
Non-controlling interests	<b>19,003</b>	15,599
	<b>2,288,618</b>	961,245

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	16	359,213	397,904
Goodwill		223,278	223,278
Other intangible assets		352,761	354,241
Investment in a joint venture		21,996	–
Financial assets held under resale agreements	17	12,486,765	6,989,078
Available-for-sale financial assets	18	16,446,394	17,681,691
Investments classified as loan and receivables		3,197,185	3,069,402
Deposits with exchanges and a non-bank financial institution	19	436,258	429,396
Bank deposits	20	–	900,000
Deferred tax assets	21	76,240	239,630
<b>Total non-current assets</b>		<b>33,600,090</b>	<b>30,284,620</b>
Current assets			
Advances to customers	22	49,752,832	55,476,601
Accounts receivable	23	935,495	774,651
Tax recoverable		882,948	662,699
Other receivables and prepayments	24	4,043,994	3,708,746
Financial assets held under resale agreements	17	9,252,545	6,017,122
Available-for-sale financial assets	18	17,934,093	18,842,448
Investments classified as loan and receivables		2,350,500	573,710
Financial assets held for trading	25	25,690,744	27,117,771
Financial assets designated at fair value through profit or loss	26	1,866,988	2,245,547
Derivative financial assets	27	14,306	8,477
Deposits with exchanges and a non-bank financial institution	19	5,163,888	6,640,659
Clearing settlement funds	28	14,388,142	25,363,435
Bank balances	20	63,569,360	68,164,034
<b>Total current assets</b>		<b>195,845,835</b>	<b>215,595,900</b>
<b>Total assets</b>		<b>229,445,925</b>	<b>245,880,520</b>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	29	10,137,259	9,537,259
Reserves		37,387,942	33,876,325
Retained profits		15,115,899	14,574,962
<b>Equity attributable to owners of the Company</b>		<b>62,641,100</b>	<b>57,988,546</b>
<b>Non-controlling interests</b>		<b>384,356</b>	<b>365,353</b>
<b>Total equity</b>		<b>63,025,456</b>	<b>58,353,899</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Notes	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
<b>LIABILITIES</b>			
Non-current liabilities			
Bonds payable	30	32,826,320	24,012,382
Financing instrument payables	31	46,340	–
Other payables and accruals	32	3,151,553	2,981,003
Deferred tax liabilities	21	238,095	–
Total non-current liabilities		36,262,308	26,993,385
Current liabilities			
Bonds payable	30	16,664,792	22,300,000
Due to banks	33	1,808,704	1,785,422
Financing instrument payables	31	10,862,130	11,518,110
Accounts payable to brokerage clients	34	74,613,679	90,404,209
Accrued staff costs	35	3,104,318	4,036,814
Other payables and accruals	32	6,216,042	5,188,003
Current tax liabilities		69,495	54,521
Financial liabilities held for trading		268,595	–
Financial liabilities designated at fair value through profit or loss		269,826	713,502
Derivative financial liabilities	27	84,837	38,002
Financial assets sold under repurchase agreements	36	16,195,743	24,494,653
Total current liabilities		130,158,161	160,533,236
Total liabilities		166,420,469	187,526,621
Total equity and liabilities		229,445,925	245,880,520
Net current assets		65,687,674	55,062,664
Total assets less current liabilities		99,287,764	85,347,284

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

The condensed consolidated financial statements on pages 56 to 62 were approved and authorized for issue by the Board of Directors on 30 August 2017 and are signed on its behalf by:

陳共炎

DIRECTOR

顧偉國

DIRECTOR

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Equity attributable to owners of the Company									
	Share capital	Reserves					Retained profits	Subtotal	Non-controlling interests	Total equity
		Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Other reserves				
Six months ended 30 June 2017 (Unaudited)										
At 1 January 2017	9,537,259	21,673,175	(435,705)	113,384	12,552,109	(26,638)	14,574,962	57,988,546	365,353	58,353,899
Profit for the period	-	-	-	-	-	-	2,112,212	2,112,212	19,003	2,131,215
Other comprehensive income/(expense) for the period	-	-	195,988	(38,585)	-	-	-	157,403	-	157,403
Total comprehensive income/(expense) for the period	-	-	195,988	(38,585)	-	-	2,112,212	2,269,615	19,003	2,288,618
Issuance of new A shares	600,000	3,486,000	-	-	-	-	-	4,086,000	-	4,086,000
Transaction costs attributable to issue of new A shares	-	(131,786)	-	-	-	-	-	(131,786)	-	(131,786)
Dividend recognized as distribution (note 15)	-	-	-	-	-	-	(1,571,275)	(1,571,275)	-	(1,571,275)
At 30 June 2017	10,137,259	25,027,389	(239,717)	74,799	12,552,109	(26,638)	15,115,899	62,641,100	384,356	63,025,456
Six months ended 30 June 2016 (Unaudited)										
At 1 January 2016	9,537,259	21,673,175	597,408	37,072	11,109,898	(35,148)	13,993,902	56,913,566	335,850	57,249,416
Profit for the period	-	-	-	-	-	-	2,255,461	2,255,461	15,599	2,271,060
Other comprehensive income/(expense) for the period	-	-	(1,329,850)	21,439	-	(1,404)	-	(1,309,815)	-	(1,309,815)
Total comprehensive income/(expense) for the period	-	-	(1,329,850)	21,439	-	(1,404)	2,255,461	945,646	15,599	961,245
Others	-	-	-	-	-	-	1,107	1,107	(1,107)	-
Dividend recognized as distribution (note 15)	-	-	-	-	-	-	(3,130,011)	(3,130,011)	-	(3,130,011)
At 30 June 2016	9,537,259	21,673,175	(732,442)	58,511	11,109,898	(36,552)	13,120,459	54,730,308	350,342	55,080,650

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017 (Unaudited)	2016 (Unaudited)
<b>OPERATING ACTIVITIES</b>			
Operating cash flows before movements in working capital		3,869,608	4,851,481
Decrease in advances to customers		5,727,314	17,996,257
(Increase)/decrease in financial assets held under resale agreements		(8,769,814)	17,039,141
Decrease in clearing settlement funds-clients		10,028,915	3,743,859
Decrease in cash held on behalf of customers		4,051,119	11,081,553
Increase in placements from a bank		–	200,000
Decrease in accounts payable to brokerage clients, accrued staff costs and other payables and accruals		(15,888,106)	(14,973,119)
Decrease in financial assets sold under repurchase agreements		(8,298,910)	(11,208,315)
Increase in due from a non-bank financial institution		–	(300,000)
Other working capital items		2,814,754	(2,827,558)
Cash (used in)/from operations		(6,465,120)	25,603,299
Income taxes paid		(355,102)	(1,152,811)
Interests paid		(544,370)	(1,133,978)
<b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>		<b>(7,364,592)</b>	23,316,510
<b>INVESTING ACTIVITIES</b>			
Dividends and interests received from investments		536,241	595,374
Purchases of property and equipment and other intangible assets		(81,800)	(63,656)
Proceeds from disposals of property and equipment and other intangible assets		3,318	701
Capital injection to a joint venture		(21,996)	–
Purchases of available-for-sale financial assets		(4,934,337)	(13,175,600)
Proceeds from disposals of available-for-sale financial assets		7,409,037	9,541,074
Decrease in investments classified as loans and receivables		92,398	250,000
Increase in investments classified as loans and receivables		(2,002,780)	–
Placement of bank deposits with original maturity of more than three months		(434,893)	(459,931)
Maturity of bank deposits with original maturity of more than three months		1,171,945	135,468
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>1,737,133</b>	(3,176,570)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017 (Unaudited)	2016 (Unaudited)
<b>FINANCING ACTIVITIES</b>			
Proceeds from placing of new A shares		4,086,000	–
Transaction costs paid on issue of new A shares		(115,642)	–
Transaction costs paid on issue of bonds and financial instrument payables		(21,000)	–
Cash injection by third-party holders to consolidated structured entities		138,173	916,455
Cash repayment to third-party holders to consolidated structured entities		(562,355)	–
Proceeds from borrowing and financing instrument payables		15,586,334	2,551,873
Proceeds from bonds issued		22,478,500	5,800,000
Repayment of borrowing and financing instrument payables		(16,171,192)	(9,855,132)
Repayment of bonds		(19,300,000)	(16,630,000)
Interests paid in respect of bonds, borrowing and financial instrument payables		(2,133,782)	(2,785,874)
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>3,985,036</b>	<b>(20,002,678)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,642,423)</b>	137,262
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>8,011,071</b>	8,415,414
Effect of foreign exchange rate changes		(10,458)	50,043
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	37	<b>6,358,190</b>	8,602,719
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:</b>			
Interests received		3,472,983	3,693,984
Total interests paid		(2,785,681)	(3,947,741)

The notes on pages 63 to 100 form an integral part of these condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 1. GENERAL INFORMATION OF THE GROUP

Pursuant to the approval from the China Securities Regulatory Commission (the “CSRC”), China Galaxy Securities Co., Ltd. (the “Company”) was established in Beijing, the People’s Republic of China (the “PRC”) on 26 January 2007 with a registered capital of RMB6 billion. In May 2013, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and the issued capital of the Company was increased to RMB7,537 million on completion of the H share offering. On 5 May 2015, the Company completed its placing of 2,000 million H shares on the Main Board of the Hong Kong Stock Exchange and the issued capital of the Company was increased to RMB9,537 million. On 23 January 2017, the Company completed its A Share Offering of 600 million shares at a price of RMB6.81 per share on Shanghai Stock Exchange. The number of shares in issue was also changed from 9,537 million to 10,137 million accordingly.

The registered office of the Company is located at 2-6F, Tower C, Corporate Square, 35 Finance Street, Xicheng District, Beijing, the PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in securities and futures brokerage, institutional sales and investment research, proprietary trading and other securities trading services, margin financing and securities lending, asset management and management, and equity investment management.

The Company’s immediate holding company is China Galaxy Financial Holdings Company Limited (中國銀河金融控股有限責任公司) (“Galaxy Financial Holdings”).

These condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company, and all values are rounded to the nearest thousand unless otherwise stated.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

### (b) Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts of fair value, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (c) Application of amendments to International Financial Reporting Standards (“IFRS”)

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ended 31 December 2017.

## 3. SEGMENT REPORTING

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organization, whereby the businesses are organized and managed separately as individual strategic business unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 3. SEGMENT REPORTING (CONTINUED)

Specifically, the Group's operating segments are as follows:

- (a) Securities brokerage: This segment engages in the provision of securities dealing and broking, margin financing to margin clients and securities lending;
- (b) Futures brokerage: This segment engages in futures dealing and broking, futures information consulting and training;
- (c) Proprietary trading and other securities trading services: This segment engages in trading of equities, bonds, funds, derivatives and other financial products for the Group;
- (d) Investment banking: This segment engages in the provision of corporate finance services including underwriting of equity and debt securities and financial advisory services to institutional clients;
- (e) Asset management: This segment engages in the provision of portfolio management, investment advisory and transaction execution services;
- (f) Private equity investment: This segment makes direct equity investments in private companies and realizes capital gains by exiting from these private equity investments through initial public offerings or share sales, or receives dividends from these portfolio companies;
- (g) Overseas business: This segment mainly represents the business operations in securities brokerage, futures brokerage, securities research, investment banking, margin financing, money lending, asset management and insurance brokerage business that are carried out in Hong Kong; and

Others mainly represent head office operations, investment holding as well as interest income and interest expense arising from general working capital.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during both periods. Segment profit or loss represents the profit earned or loss incurred by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets or liabilities are allocated to each segment, excluding deferred tax assets and liabilities. Inter-segment balances mainly resulted from futures brokerage transaction carried out by futures brokerage segment for proprietary trading and other securities trading services segment and are eliminated upon consolidation. The segment result excludes income tax expense while the segment assets and liabilities include prepaid taxes and current tax liabilities respectively.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 3. SEGMENT REPORTING (CONTINUED)

The Group operates in two principal geographical areas in the People's Republic of China, Mainland China and Hong Kong, representing the location of both income from external customers and assets of the Group. Segment revenue and all assets of the Group in respect of overseas business segment are attributable to operations in Hong Kong. Segment revenue and all assets of the Group except for the overseas business segment are attributable to operations in Mainland China. No single customer contributes more than 10% of the Group's income for the six months ended 30 June 2017 and 2016.

The operating and reportable segment information provided to the CODM for the six months ended 30 June 2017 and 2016 is as follows:

	Securities brokerage	Futures brokerage	Proprietary trading and other securities services	Investment banking management	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
For the six months ended 30 June 2017 (Unaudited)											
<b>Segment revenue and results</b>											
Revenue and net investment gains											
- External	5,059,946	407,015	1,120,958	198,808	398,935	62,674	197,557	7,445,893	240,564	-	7,686,457
- Inter-segment	182,288	777	-	-	15,753	-	-	198,818	-	(198,818)	-
Other income and gains	11,629	7,912	-	-	-	2	4,251	23,794	(5,857)	-	17,937
Segment revenue and other income	5,253,863	415,704	1,120,958	198,808	414,688	62,676	201,808	7,668,505	234,707	(198,818)	7,704,394
Segment expenses	(2,865,461)	(256,331)	(943,238)	(297,021)	(301,529)	(16,297)	(150,632)	(4,830,509)	(455,505)	198,818	(5,087,196)
Segment result	2,388,402	159,373	177,720	(98,213)	113,159	46,379	51,176	2,837,996	(220,798)	-	2,617,198
Profit/(loss) before income tax	2,388,402	159,373	177,720	(98,213)	113,159	46,379	51,176	2,837,996	(220,798)	-	2,617,198
For the six months ended 30 June 2016 (Unaudited)											
<b>Segment revenue and results</b>											
Revenue and net investment gains											
- External	6,304,251	328,127	1,193,142	540,089	354,867	19,427	184,142	8,924,045	293,891	-	9,217,936
- Inter-segment	153,823	1,108	-	-	13,026	-	-	167,957	-	(167,957)	-
Other income and gains	22,583	4,240	200	-	-	-	1,700	28,723	4,869	-	33,592
Segment revenue and other income	6,480,657	333,475	1,193,342	540,089	367,893	19,427	185,842	9,120,725	298,760	(167,957)	9,251,528
Segment expenses	(4,032,861)	(223,380)	(844,258)	(358,171)	(264,621)	(9,983)	(133,036)	(5,866,310)	(617,625)	167,957	(6,315,978)
Segment result	2,447,796	110,095	349,084	181,918	103,272	9,444	52,806	3,254,415	(318,865)	-	2,935,550
Profit/(loss) before income tax	2,447,796	110,095	349,084	181,918	103,272	9,444	52,806	3,254,415	(318,865)	-	2,935,550

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017  
(Amounts in thousands of Renminbi, unless otherwise stated)

## 3. SEGMENT REPORTING (CONTINUED)

	Securities brokerage	Futures brokerage	Proprietary trading and other securities trading services	Investment banking management	Asset management	Private equity and alternative investments	Overseas business	Reportable segment total	Others	Eliminations	Consolidated total
As at 30 June 2017 (Unaudited)											
<b>Segment assets and liabilities</b>											
Segment assets	128,858,757	17,658,844	57,712,893	2,399,660	6,199,852	2,946,130	5,664,785	221,440,921	113,689,703	(105,760,939)	229,369,685
Deferred tax assets											76,240
Total assets											229,445,925
Segment liabilities	124,154,581	15,759,965	55,809,905	1,320,264	4,972,643	352,403	4,429,466	206,799,227	65,098,022	(105,714,875)	166,182,374
Deferred tax liabilities											238,095
Total liabilities											166,420,469
As at 31 December 2016 (Audited)											
<b>Segment assets and liabilities</b>											
Segment assets	141,341,356	20,796,587	54,787,793	1,385,971	5,996,991	1,784,594	5,485,816	231,579,108	106,608,073	(92,546,291)	245,640,890
Deferred tax assets											239,630
Total assets											245,880,520
Segment liabilities	133,237,157	18,983,110	53,075,280	221,325	5,228,792	388,799	4,256,213	215,390,676	64,575,870	(92,439,925)	187,526,621

## 4. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Commission on securities dealing and broking and handling fee income	2,175,138	3,168,293
Underwriting and sponsors' fees	113,430	418,799
Commission on futures and options contracts dealing and broking and handling fee income	184,810	163,175
Consultancy and financial advisory fee income	31,030	65,983
Asset management fee income	312,977	213,207
Others	47,596	49,033
	<b>2,864,981</b>	4,078,490

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 5. INTEREST INCOME

The following is the analysis excluding interest income from investments:

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Deposits with exchanges and a non-bank financial institution and bank balances	984,000	1,474,615
Advances to customers and securities lending	2,014,183	2,231,302
Financial assets held under resale agreements	428,776	78,668
Interest income from other financial assets	14,938	–
	<b>3,441,897</b>	3,784,585

## 6. NET INVESTMENT GAINS

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Realized and unrealized gains/(losses) from		
– available-for-sale financial assets	264,108	174,237
– financial assets held for trading	375,288	(66,070)
– financial assets designated at fair value through profit or loss	14,409	2,205
– financial liabilities held for trading	(6,183)	–
– financial liabilities designated at fair value through profit or loss	35,696	296
– derivatives	(40,654)	537,464
Dividend income from		
– available-for-sale financial assets	156,735	180,506
Interest income from		
– available-for-sale financial assets	436,265	377,258
– investments classified as loans and receivables	143,915	148,965
	<b>1,379,579</b>	1,354,861

## 7. DEPRECIATION AND AMORTIZATION

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Depreciation for property and equipment	86,798	82,765
Amortization of other intangible assets	20,133	16,559
	<b>106,931</b>	99,324

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 8. STAFF COSTS

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Salaries, bonus and allowances	1,538,244	1,734,024
Social welfare	299,256	285,098
Contributions to annuity schemes	66,545	202,973
Supplementary retirement benefits	–	4,145
Early retirement benefits	–	1,274
Others	96,484	125,306
	<b>2,000,529</b>	2,352,820

## 9. COMMISSION AND FEE EXPENSES

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Securities and futures dealing and broking expenses	108,564	132,729
Underwriting and sponsors' fee expenses	1,955	5,893
Other service expenses	6,995	5,143
	<b>117,514</b>	143,765

## 10. INTEREST EXPENSES

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Presented below are interests on the following liabilities:		
– Bonds payable	1,101,585	1,244,470
– Financial assets sold under repurchase agreements	372,178	897,512
– Financing instrument payables	176,736	289,566
– Accounts payable to brokerage clients	119,727	169,520
– Due to banks	32,447	26,819
– Third-party interests in consolidated structured entities	107,529	64,869
	<b>1,910,202</b>	2,692,756

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 11. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
General and administrative expenses	190,152	191,941
Business tax and other taxes	35,810	316,087
Minimum operating lease rentals in respect of rented premises	255,541	264,431
Data transmission expenses	103,106	107,349
Securities investor protection funds	36,686	47,484
Business travel expenses	33,803	31,247
Utilities expenses	17,200	20,706
Sundry expenses	45,598	37,477
	<b>717,896</b>	1,016,722

## 12. IMPAIRMENT LOSSES

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Impairment/(reversals) of impairment of the following assets:		
– Financial assets held under resale agreements (note 17)	36,704	10,382
– Advances to customers (note 22)	(3,545)	(23,536)
– Accounts receivables (note 23)	2,504	16,973
– Other receivables (note 24)	(1,725)	6,772
– Available-for-sale financial assets	194,377	–
– Investments classified as loan and receivables	5,809	–
	<b>234,124</b>	10,591

## 13. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Current income tax	149,827	559,337
PRC Enterprise Income Tax	141,073	559,337
Hong Kong Profits Tax	8,754	–
Deferred income tax (note 21)	336,156	105,153
	<b>485,983</b>	664,490

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate applicable to PRC enterprises is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the six months ended 30 June 2017 and the six months ended 30 June 2016 is based on the profit attributable to owners of the Company and the number of ordinary shares in issue during the periods.

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Profit attributable to owners of the Company	2,112,212	2,255,461
Weighted average number of shares in issue (2016: weighted average number of shares in issue) (thousand)	10,064,331	9,537,259
Basic earnings per share (in RMB)	0.21	0.24

No diluted earnings per share has been presented for the six months ended 30 June 2017 and 2016 as the Group had no potential ordinary shares in issue during the periods.

## 15. DIVIDEND

No interim dividend was proposed by the Board of Directors in respect of the interim period for the six months ended 30 June 2017.

A dividend in respect of 2016 of RMB1.55 per 10 shares (inclusive of tax), or a total of RMB1,571.28 million, based on a total of 10,137,258,757 shares in issue, was approved at the Annual General Meeting on 22 June 2017.

A dividend in respect of 2015 of RMB3.28188 per 10 shares (inclusive of tax), or a total of RMB3,130.01 million, based on a total of 9,537,258,757 shares in issue, was approved at the Annual General Meeting on 6 June 2016.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Total
<b>COST</b>						
As at 1 January 2016 (Audited)	245,067	732,571	95,309	131,365	298,967	1,503,279
Additions	–	53,091	2,489	12,192	49,911	117,683
Disposals/written-off	–	(58,248)	(2,446)	(8,150)	(34,643)	(103,487)
As at 31 December 2016 (Audited)	245,067	727,414	95,352	135,407	314,235	1,517,475
<b>ACCUMULATED DEPRECIATION</b>						
As at 1 January 2016 (Audited)	120,339	560,716	80,994	101,982	188,741	1,052,772
Charge for the year	10,690	76,905	4,241	14,590	61,440	167,866
Disposals/written-off	–	(56,602)	(2,419)	(7,403)	(34,643)	(101,067)
As at 31 December 2016 (Audited)	131,029	581,019	82,816	109,169	215,538	1,119,571
<b>CARRYING VALUES</b>						
As at 31 December 2016 (Audited)	114,038	146,395	12,536	26,238	98,697	397,904
<b>COST</b>						
As at 1 January 2017 (Audited)	245,067	727,414	95,352	135,407	314,235	1,517,475
Additions	–	19,306	1,819	5,874	24,243	51,242
Disposals/written-off	–	(19,864)	(772)	(4,420)	(17,792)	(42,848)
As at 30 June 2017 (Unaudited)	245,067	726,856	96,399	136,861	320,686	1,525,869
<b>ACCUMULATED DEPRECIATION</b>						
As at 1 January 2017 (Audited)	131,029	581,019	82,816	109,169	215,538	1,119,571
Charge for the period	5,345	42,583	2,507	4,252	32,111	86,798
Disposals/written-off	–	(18,691)	(716)	(2,514)	(17,792)	(39,713)
As at 30 June 2017 (Unaudited)	136,374	604,911	84,607	110,907	229,857	1,166,656
<b>CARRYING VALUES</b>						
As at 30 June 2017 (Unaudited)	108,693	121,945	11,792	25,954	90,829	359,213

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

## 17. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
<b>Non-current</b>		
Analyzed by collateral type:		
Stocks	12,549,513	7,024,199
Less: Impairment (note 12)	(62,748)	(35,121)
	<b>12,486,765</b>	6,989,078
Analyzed by market of collateral:		
Stock exchanges	12,486,765	6,989,078
<b>Current</b>		
Analyzed by collateral type:		
Stocks	7,243,238	5,717,300
Bonds	2,036,250	317,530
Funds	8,915	9,073
Less: Impairment (note 12)	(35,858)	(26,781)
	<b>9,252,545</b>	6,017,122
Analyzed by market of collateral:		
Stock exchanges	9,252,545	6,017,122

The movements in the allowance for impairment on financial assets held under resale agreements are set out below:

	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
At beginning of the period	61,902	6,510
Impairment losses recognized	36,704	10,382
At end of the period	<b>98,606</b>	16,892

The fair values of collateral received by the Group are approximate to the carrying amount of these financial assets held under resale agreements.

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## 18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2017			
	Cost (Unaudited)	Fair value changes (Unaudited)	Impairment (Unaudited)	Carrying amount (Unaudited)
<b>Non-current</b>				
Measured at fair value:				
Debt securities	1,309,726	12,911	–	1,322,637
Funds	5,549,134	(102,572)	–	5,446,562
Other investments <sup>(1)</sup>	9,327,418	82,538	–	9,409,956
Measured at cost:				
Private Equity securities <sup>(2)</sup>	429,739	–	(162,500)	267,239
	<b>16,616,017</b>	<b>(7,123)</b>	<b>(162,500)</b>	<b>16,446,394</b>
<b>Current</b>				
Measured at fair value:				
Debt securities	13,160,333	4,029	–	13,164,362
Equity securities	4,511,568	(326,951)	(386,201)	3,798,416
Other investments <sup>(1)</sup>	966,991	10,422	(6,098)	971,315
	<b>18,638,892</b>	<b>(312,500)</b>	<b>(392,299)</b>	<b>17,934,093</b>
		As at 31 December 2016		
	Cost	Fair value	Impairment	Carrying amount
	(Audited)	(Audited)	(Audited)	(Audited)
<b>Non-current</b>				
Measured at fair value:				
Debt securities	999,891	19,820	–	1,019,711
Funds	5,017,333	(78,049)	–	4,939,284
Other investments <sup>(1)</sup>	12,134,065	(608,885)	(13,684)	11,511,496
Measured at cost:				
Private Equity securities <sup>(2)</sup>	373,700	–	(162,500)	211,200
	<b>18,524,989</b>	<b>(667,114)</b>	<b>(176,184)</b>	<b>17,681,691</b>
<b>Current</b>				
Measured at fair value:				
Debt securities	13,390,661	197,619	–	13,588,280
Equity securities	5,190,367	(114,681)	(191,824)	4,883,862
Other investments <sup>(1)</sup>	367,070	3,236	–	370,306
	<b>18,948,098</b>	<b>86,174</b>	<b>(191,824)</b>	<b>18,842,448</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 18. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

- (1) Included in the balance represents an investment in a designated account managed by China Securities Finance Corporation Limited (the “CSFCL”). The relevant arrangement of the investment is disclosed in the Group’s annual financial statements for the year ended 31 December 2016. According to a valuation report provided by CSFCL, as at June 30, 2017, the fair value of this designated account was RMB7,895 million.

The remaining balance mainly represents investments in: (i) collective asset management schemes issued and managed by the Group, whereby the Group’s interest in and exposure to them are not significant; (ii) wealth management products issued by banks, (iii) targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC and loans.

- (2) As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably. The values of these securities are measured at cost less impairment at the end of each reporting period.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realized within one year from the end of the reporting periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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## 19. DEPOSITS WITH EXCHANGES AND A NON-BANK FINANCIAL INSTITUTION

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
<b>Non-current</b>		
Deposits with stock exchanges	424,713	397,920
Deposits with futures and commodity exchanges	5,665	25,508
Guarantee fund paid to Shenzhen Stock Exchange	5,780	5,780
Others	100	188
	<b>436,258</b>	429,396
<b>Current</b>		
Deposits with futures and commodity exchanges	5,146,597	6,606,451
CSFCL	17,291	34,208
	<b>5,163,888</b>	6,640,659

## 20. BANK DEPOSITS AND BANK BALANCES

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
<b>Non-current</b>		
House accounts	–	900,000
	–	900,000
<b>Current</b>		
House accounts	6,405,291	6,948,846
Cash held on behalf of customers	57,164,069	61,215,188
	<b>63,569,360</b>	68,164,034

Bank balances comprise time and demand deposits at bank which bear interest at the prevailing market rates. The non-current bank balances are bank deposits with remaining maturity of more than one year.

The Group maintains accounts with banks to hold customers' deposits arising from normal business transactions. The corresponding liabilities are recorded as accounts payable to brokerage clients (note 34).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017  
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## 21. DEFERRED TAXATION

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Deferred tax assets	<b>76,240</b>	239,630
Deferred tax liabilities	<b>(238,095)</b>	–
	<b>(161,855)</b>	239,630
	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
Net deferred income tax assets, at beginning of the period	<b>239,630</b>	131,017
Recognized in profit or loss (note 13)	<b>(336,156)</b>	(105,153)
Recognized in other comprehensive income	<b>(65,329)</b>	443,283
Net deferred income tax liabilities/assets, at end of the period	<b>(161,855)</b>	469,147

The movements of deferred tax assets and liabilities are set out below:

	Changes in fair value of financial assets at fair value through profit or loss	Changes in fair value of available- for-sale financial assets	Accrued staff costs	Allowance of impairment losses	Accrued interest expenses	Accrued expenses	Changes in fair value of derivative instruments	Accrued interest income	Others	Total
At 1 January 2016 (Audited)	(152,154)	(199,136)	241,628	45,514	626,846	18,442	81,683	(520,528)	(11,278)	131,017
(Charge)/credit to profit or loss	319,278	–	18,934	45,309	(196,692)	312	(76,983)	(352,188)	6,272	(235,758)
Charge to other comprehensive income	–	344,371	–	–	–	–	–	–	–	344,371
At 31 December 2016 (Audited)	167,124	145,235	260,562	90,823	430,154	18,754	4,700	(872,716)	(5,006)	239,630
(Charge)/credit to profit or loss	(94,440)	–	6,182	56,228	(222,178)	14,130	9,284	(121,047)	15,685	(336,156)
Charge to other comprehensive income	–	(65,329)	–	–	–	–	–	–	–	(65,329)
At 30 June 2017 (Unaudited)	<b>72,684</b>	<b>79,906</b>	<b>266,744</b>	<b>147,051</b>	<b>207,976</b>	<b>32,884</b>	<b>13,984</b>	<b>(993,763)</b>	<b>10,679</b>	<b>(161,855)</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes, if any, and the taxes are to be levied by the same tax authority, and of the same taxable entity.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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## 22. ADVANCES TO CUSTOMERS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Loans to margin clients	<b>49,191,144</b>	54,821,652
Other loans and advances	<b>641,258</b>	738,064
Less: Impairment (note 12)	<b>(79,570)</b>	(83,115)
	<b>49,752,832</b>	55,476,601

- (1) The credit facility limits for margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the users of these condensed consolidated financial statements in view of the nature of business of securities margin financing.

The Group determines the allowance for impaired debts based on the evaluation of collectability and on management's judgment including the assessment of change in credit quality and collateral.

- (2) The movements in the allowance for impairment are set out below:

	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
At beginning of the period	<b>83,115</b>	83,053
Impairment losses reversed (note 12)	<b>(3,545)</b>	(23,536)
At end of the period	<b>79,570</b>	59,517

The concentration of credit risk is limited due to the customer base being large and diversified.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017  
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## 23. ACCOUNTS RECEIVABLE

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Accounts receivable of:		
Client securities settlement	141,126	112,230
Brokers and dealers	122,317	57,907
Clearing house	101,119	69,946
Underwriting and sponsors fee	222,005	208,655
Trading rights rental commission	129,069	144,361
Asset management and funds distribution handling fee	216,426	145,935
Others	19,164	49,120
Subtotal	951,226	788,154
Less: Impairment	(15,731)	(13,503)
Total	935,495	774,651

Aging analysis of accounts receivable is as follows:

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Within 1 year	732,821	597,057
Between 1 and 2 years	28,441	175,989
Between 2 and 3 years	174,223	1,605
Over 3 years	10	-
	935,495	774,651

The movements in the allowance for impairment on accounts receivable are set out below:

	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
At beginning of the period	13,503	19,240
Impairment losses recognized (note 12)	2,504	16,973
Amounts written off	(276)	-
At end of the period	15,731	36,213



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 24. OTHER RECEIVABLES AND PREPAYMENTS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Prepaid taxes	4,960	4,374
Interests receivable	3,721,542	3,353,381
Prepaid expenses	172,229	128,399
Others	161,042	241,532
Subtotal	4,059,773	3,727,686
Less: Impairment	(15,779)	(18,940)
Total	4,043,994	3,708,746

The movements in the allowance for impairment on other receivables are set out below:

	<b>Six months ended 30 June</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
At beginning of the period	18,940	12,693
Impairment losses (reversed)/recognized (note 12)	(1,725)	6,772
Amounts written off	(1,436)	(3,091)
At end of the period	15,779	16,374

## 25. FINANCIAL ASSETS HELD FOR TRADING

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Debt securities	17,935,420	19,597,108
Equity securities	2,266,567	1,678,812
Funds	5,488,757	5,841,851
Total	25,690,744	27,117,771

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 26. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Convertible bonds	<b>78,437</b>	266,196
Equity securities	<b>571,497</b>	653,592
Structured deposits and wealth management products	<b>757,119</b>	717,056
Collective asset management schemes	<b>459,935</b>	608,703
<b>Total</b>	<b>1,866,988</b>	2,245,547

Convertible bonds held by the Group are hybrid instruments designated as financial assets at fair value through profit or loss.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>As at 30 June 2017</b>			As at 31 December 2016		
	<b>(Unaudited)</b>			(Audited)		
	<b>Nominal amounts</b>	<b>Asset</b>	<b>Liability</b>	Nominal amounts	Asset	Liability
Equity Return Swap	<b>313,244</b>	<b>1,962</b>	<b>51,764</b>	290,325	7,548	37,226
Stock index futures	<b>147,942</b>	<b>2,777</b>	<b>1,299</b>	195,581	2,980	73
Less: settlement		<b>(2,777)</b>	<b>(1,299)</b>		(2,980)	(73)
Treasury bond futures	<b>2,831,328</b>	<b>1,009</b>	<b>5,936</b>	746,954	9,203	1,319
Less: settlement		<b>(1,009)</b>	<b>(5,936)</b>	–	(9,203)	(1,319)
Commodity Futures	<b>108,741</b>	<b>1,255</b>	<b>864</b>	70,642	535	3,382
Less: settlement		<b>(1,255)</b>	<b>(864)</b>	–	(535)	(3,382)
Options	<b>800,127</b>	<b>12,344</b>	<b>33,073</b>	103,696	929	776
Interest Rate Swap	<b>60,000</b>	<b>322</b>	<b>19</b>	20,000	–	–
Less: settlement		<b>(322)</b>	<b>(19)</b>		–	–
<b>Total</b>	<b>4,261,382</b>	<b>14,306</b>	<b>84,837</b>	1,427,198	8,477	38,002

(1) The Group uses derivatives primarily for hedging its positions in investments. In certain cases, the Group also entered into contracts on derivatives for proprietary trading.

(2) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures, treasury bond futures, commodity futures and interest rate swap were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net position of the stock index futures, treasury bond futures, commodity future and interest rate swap contracts was nil at the end of each reporting period.

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## 28. CLEARING SETTLEMENT FUNDS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Clearing settlement funds held with clearing houses for:		
– House accounts	1,051,485	1,997,863
– Clients accounts	13,336,657	23,365,572
	<b>14,388,142</b>	25,363,435

These clearing settlement funds are held by the clearing houses for the Group, and these balances carry interest at prevailing market interest rates.

## 29. SHARE CAPITAL

The Company's number of shares and nominal value are as follows:

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Issued and fully paid ordinary shares of RMB 1 each (in thousands)		
Domestic shares	6,446,274	5,846,274
H shares	3,690,985	3,690,985
	<b>10,137,259</b>	9,537,259
Share capital (in RMB'000)		
Domestic shares	6,446,274	5,846,274
H shares	3,690,985	3,690,985
	<b>10,137,259</b>	9,537,259

On 23 January 2017, the Company completed its A share offering of 600 million shares with nominal value of RMB1 per share at a price of RMB6.81 per share.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 30. BONDS PAYABLE

As at 30 June 2017 and 31 December 2016, bonds payable comprised of subordinated bonds and corporate bonds.

Details of the bonds issued by the Company are as follows:

### Current

Issue date	Maturity date	Coupon rate	As at 30 June 2017 Amount (Unaudited)	As at 31 December 2016 Amount (Audited)
30 January 2015	30 January 2017	5.80%	–	1,200,000
30 January 2015	30 January 2017	5.90%	–	2,800,000
10 April 2015	10 April 2017	5.80%	–	4,300,000
8 May 2015	8 May 2017	5.70%	–	11,000,000
23 November 2016	20 August 2017	3.50%	3,000,000	3,000,000
21 February 2017	27 November 2017	4.60%	2,499,167	–
17 March 2017	23 September 2017	4.80%	1,370,000	–
17 March 2017	23 December 2017	4.88%	2,500,000	–
24 April 2015	24 April 2018	5.60%	5,800,000	–
4 February 2015	4 February 2018	4.65%	1,495,625	–
			<b>16,664,792</b>	22,300,000

### Non-current

Issue date	Maturity date	Coupon rate	As at 30 June 2017 Amount (Unaudited)	As at 31 December 2016 Amount (Audited)
24 April 2015	24 April 2018	5.60%	–	5,800,000
4 February 2015	4 February 2018	4.65%	–	1,491,875
4 February 2015	4 February 2020	4.80%	992,250	990,750
1 June 2016	1 June 2019	3.10%	4,874,955	4,868,422
1 June 2016	1 June 2021	3.35%	596,240	595,760
23 August 2016	23 August 2019	2.89%	1,484,375	1,480,625
23 August 2016	23 August 2021	3.14%	987,750	986,250
19 September 2016	19 September 2019	3.18%	3,500,000	3,500,000
24 October 2016	24 October 2018	3.15%	4,000,000	4,000,000
15 March 2016	15 March 2021	4.30%	299,000	298,700
21 February 2017	27 February 2019	4.65%	2,493,750	–
20 March 2017	23 March 2019	4.98%	1,755,042	–
20 March 2017	23 September 2019	4.98%	2,492,958	–
27 April 2017	28 April 2019	4.95%	4,630,000	–
27 April 2017	28 April 2020	4.99%	4,720,000	–
			<b>32,826,320</b>	24,012,382

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 30. BONDS PAYABLE (Continued)

All of these bonds are denominated in RMB.

For the bonds issued on 15 March 2016, the Group has an option to extend the term of the bonds for another two years but then there will be a 300 basis point upward adjustment to the interest rates. Other than this, there are no early redemption or extension options embedded in these bonds.

## 31. FINANCING INSTRUMENT PAYABLES

Financing instrument payables is a special type of financing allowed by CSRC.

As at 30 June 2017, for financing instrument payables issued by the Company, their coupon rates are from 3.75% to 5.00% (31 December 2016: 3.70%-5.45%). Their principals and interests are not associated with any particular securities.

## 32. OTHER PAYABLES AND ACCRUALS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
<b>Current</b>		
Third-party interests in consolidated structured entities	937,097	1,664,530
Dividends payable	1,571,275	–
Business taxes, VAT and other taxes	167,029	166,506
Customer deposits held for swap transactions	805,630	273,196
Accrued expenses	216,850	109,832
Payables to margin clients	1,080,689	706,304
Payables to clearing houses	13,534	113,175
Sundry payables	46,796	42,387
Payable for the securities investor protection fund	57,517	64,652
Interests payable	836,185	1,491,163
Others	483,440	556,258
	<b>6,216,042</b>	5,188,003
<b>Non-current</b>		
Third-party interests in consolidated structured entities	3,151,236	2,740,456
Interests payable	317	240,547
	<b>3,151,553</b>	2,981,003

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. DUE TO BANKS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Secured short-term bank loans <sup>(1)</sup>	<b>758,545</b>	679,820
Unsecured short-term bank loans <sup>(2)</sup>	<b>1,050,159</b>	1,105,602
	<b>1,808,704</b>	1,785,422

- (1) The short-term bank loans borrowed by the Group are secured by listed shares in Hong Kong pledged to the Group as a security for advances to customers (with customers' consent) with a fair value of approximately RMB1,840 million (31 December 2016: RMB2,272 million). These short-term bank loans bear interest at Hibor+125 to 150 basis points (31 December 2016: Hibor+145 to 155 basis point per annum) and are repayable within 7 days (31 December 2016: within 7 days).
- (2) As at 30 June 2017, the unsecured short-term bank loans bear interest at 1.42%-2.50% (31 December 2016: 1.55%-2.00%) per annum and are repayable within 32 days (31 December 2016: within 2 months).

## 34. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value to the readers of the condensed consolidated financial statements in view of the nature of these businesses.

Accounts payable to brokerage clients mainly include money held on behalf of clients at banks and at clearing houses by the Group and are interest bearing at the prevailing market interest rate.

As at 30 June 2017, included in the Group's accounts payable to brokerage clients were approximately RMB7,104 million (31 December 2016: RMB7,703 million) received from clients for margin financing and securities lending arrangement.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 35. ACCRUED STAFF COSTS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Salaries, bonus and allowances	2,614,074	3,558,906
Social welfare	23,953	10,198
Annuity schemes	14,237	36,628
Supplementary retirement benefits	290,788	295,645
Early retirement benefits	7,802	12,156
Others	153,464	123,281
	<b>3,104,318</b>	4,036,814

## 36. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Analyzed by collateral type:		
Bonds	14,364,131	17,524,765
Rights and interests in margin loans	-	2,969,000
Financial assets held under resale agreement	-	1,330,989
Funds	1,831,612	2,669,899
	<b>16,195,743</b>	24,494,653
Analyzed by market of collateral:		
Stock exchanges	15,099,943	16,237,094
Interbank bond market	1,095,800	3,957,570
Over the counter	-	4,299,989
	<b>16,195,743</b>	24,494,653

Financial assets sold under repurchase agreements bear effective interest at 3.00%-8.26% per annum (31 December 2016: 2.40%-7.20% per annum).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 37. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Bank balances – house accounts	5,306,705	6,207,274
Clearing settlement funds – house accounts	1,051,485	2,395,445
	6,358,190	8,602,719

Cash and cash equivalent does not include bank deposits with original maturity of more than three months held by the Group and restricted bank deposits. As at 30 June 2017, bank deposits with original maturity of more than three months held by the Group were RMB1,099 million (30 June 2016: RMB1,576 million) and there was no bank deposits restricted for use (30 June 2016: Nil).

## 38. INTERESTS IN STRUCTURED ENTITIES

### (a) Structured entities set up and managed by the Group

Structured entities consolidated by the Group include the collective asset management schemes, funds and other investments where the Group involves as investment manager or investment consultant and also as investor. These special vehicles issue units to investors, including the Group, to finance its operations, which are primarily investments in various debt and equity instruments.

The Group has committed to holding investments of RMB106 million (31 December 2016: RMB105 million) in collective asset management schemes managed by the Group till the end of the investment period. These investments are usually the most junior tranches in these schemes and will be utilized to absorb losses of senior tranches. However, the Group's maximum losses are limited to these investments.

As at 30 June 2017, the total assets of the consolidated structured entities are RMB6,955 million (31 December 2016: RMB6,306 million) and the carrying amount of third party interests in the consolidated collective asset management schemes are RMB4,088 million (31 December 2016: RMB4,405 million).

The Group also has interests in unconsolidated collective asset management schemes which the remuneration of the Group is commensurate with the services provided and the variable returns the Group exposed to are not considered significant. The Group therefore considers such decision-making rights is acting as an agent for the investors and hence did not consolidate these structured entities.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 38. INTERESTS IN STRUCTURED ENTITIES (Continued)

### (a) Structured entities set up and managed by the Group (Continued)

The size of unconsolidated structured entities managed by the Group amounted to RMB47,222 million as at 30 June 2017 (31 December 2016: RMB36,178 million). The Group's interests is equal to the maximum exposure to loss of interests held by the Group in these unconsolidated structured entities, which are amounted to RMB885 million as at 30 June 2017(31 December 2016: RMB948 million).

During the period, the amount of management fee income and investment gains from unconsolidated collective asset management schemes managed by the Group amounted to RMB313 million as at 30 June 2017 (six months ended 30 June 2016: RMB208 million).

### (b) Structured entities set up and managed by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds, asset management schemes, trust schemes, asset-backed securities and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities is to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities as 30 June 2017 and 31 December 2016, which are listed as below:

	As at 30 June 2017			
	Available- for-sale financial assets (Unaudited)	Financial assets at fair value through profit or loss (Unaudited)	Investments classified as loan and receivables (Unaudited)	Total (Unaudited)
Carrying amount of interests held by the Group				
– Funds	5,446,562	5,488,757	–	10,935,319
– Trust schemes, structured deposits and wealth management products	2,061,955	757,119	3,197,185	6,016,259
– Collective asset management schemes	424,672	459,935	–	884,607
Total	7,933,189	6,705,811	3,197,185	17,836,185

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## 38. INTERESTS IN STRUCTURED ENTITIES (Continued)

### (b) Structured entities set up and managed by third party institutions in which the Group holds an interest (Continued)

	As at 31 December 2016			Total (Audited)
	Available- for-sale financial assets (Audited)	Financial assets at fair value through profit or loss (Audited)	Investments classified as loan and receivables (Audited)	
Carrying amount of interests held by the Group				
– Funds	4,939,284	5,841,851	–	10,781,135
– Trust schemes, structured deposits and wealth management products	1,687,165	717,056	3,069,402	5,473,623
– Collective asset management schemes	339,680	608,703	–	948,383
<b>Total</b>	<b>6,966,129</b>	<b>7,167,610</b>	<b>3,069,402</b>	<b>17,203,141</b>

## 39. OPERATING LEASE COMMITMENTS

### The Group as lessee

At 30 June 2017 and 31 December 2016, the Group had commitments for total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Within 1 year	<b>368,550</b>	455,280
Beyond 1 year and not more than 5 years	<b>591,824</b>	637,101
More than 5 years	–	206,934
	<b>960,374</b>	1,299,315

Lease of rented premises are negotiated with fixed lease term for 1 year to 13 years (31 December 2016: 1 year to 14 years).

### The Group as lessor

At 30 June 2017 and 31 December 2016, the Group did not have material lease commitments as lessor.

## 40. CAPITAL COMMITMENTS

	<b>As at 30 June 2017 (Unaudited)</b>	As at 31 December 2016 (Audited)
Contracted but not provided for Leasehold improvements	<b>19,349</b>	15,512

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 41. RELATED PARTY TRANSACTIONS

### (a) Transactions and balances with governmental related entities operated in the PRC

- (1) Immediate holding company and its fellow subsidiaries

Galaxy Financial Holdings is a financial holding company approved by the State Council of the PRC and was established in Beijing on 8 August 2005. Galaxy Financial Holdings owned 5,160,610,864 shares (31 December 2016: 5,217,743,240 shares), representing 50.91% of the entire equity interest of the Company as at 30 June 2017 (31 December 2016: 54.71%). The shareholders of Galaxy Financial Holdings are Central Huijin Investment Ltd. ("Central Huijin") with 78.57% equity interest and the Ministry of Finance (the "MOF") with 21.43% equity interest.

Central Huijin is a wholly-owned subsidiary of China Investment Corporation Limited, and is established in Beijing, PRC. Central Huijin was established to hold certain equity investments as authorized by the State Council and does not engage in other commercial activities. Central Huijin exercises legal rights and obligations in the Group on behalf of the PRC Government.

MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies.

During the six months ended 30 June 2017 and 30 June 2016, the Group provided securities brokerage and asset management services to Galaxy Financial Holdings and details of the significant transactions and balances as at 30 June 2017 and 31 December 2016 are set out below.

	<b>As at 30 June (Unaudited)</b>	As at 31 December (Audited)
Accounts receivable	11,071	11,967
Accounts payable to brokerage clients	52,212	185,485
Dividends payable	799,895	–
	<b>Six months ended 30 June 2017 (Unaudited)</b>	2016 (Unaudited)
Commission and fee income	34,310	46,967
Interest expenses	761	3,384
Rental expenses paid or payable to	665	–

During six months ended June 30, 2017, the Group subscribed and redeemed funds managed by a fellow subsidiary. The aggregate values of these subscriptions and redemptions amounted to RMB521 million and RMB21 million for the six months ended June 30, 2017.

During the six months ended June 30, 2017, the immediate holding company provided financing on an aggregate amount of RMB400 million to the Group for certain repurchase agreements and the Group incurred interest expenses of RMB0.28 million for these transactions. The aggregate fair values of financial assets in respect of these transactions amounted to RMB440 million.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts in thousands of Renminbi, unless otherwise stated)

## 41. RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions and balances with governmental related entities operated in the PRC (Continued)

#### (2) Central Huijin

Central Huijin holds equity interests in a number of banks and non-bank financial institutions in the PRC under the direction of the Chinese government (collectively referred to as the “Central Huijin Group”). The Group enters into transactions with Central Huijin Group under normal commercial terms. Such transactions mainly include deposits at banks, securities and futures dealing and broking, underwriting of equity and debt securities, and purchase and sale of equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group.

#### The Group's material transactions with Central Huijin Group

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Interest income from banks and non-bank financial institutions within the Central Huijin Group	381,534	991,159
Interest expenses to brokerage clients within the Central Huijin Group	46,416	318,047

#### The Group's material balances with Central Huijin Group

	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)
	Equity and debt securities issued by banks and non-bank financial institutions within the Central Huijin Group classified as	
– available-for-sale financial assets	499,534	552,777
– financial assets held for trading	1	150,840
– financial assets designated at fair value through profit or loss	53	–
Bank balances deposited with banks within the Central Huijin Group	36,758,259	37,314,290
Other receivables and prepayments	5,868	2,773
Due to banks and non-bank financial institutions	418,328	885,555
Accounts payable to brokerage clients within the Central Huijin Group	775	770
Other payables and accruals	1,867	5,435
Financial assets held under repurchase agreements	1,095,800	3,000,000

As at 30 June 2017, the financial institutions within the Central Huijin Group invested an amount of RMB415 million (31 December 2016: RMB1,265 million) in collective asset management schemes and targeted asset management schemes launched by the Group.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 41. RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions and balances with governmental related entities operated in the PRC (Continued)

- (3) Transactions with other government-related entities in the PRC

Other than disclosed above, a significant portion of the Group's transactions are entered into with government related entities including securities and futures dealing and broking, underwriting of debt securities, purchase and sales of government bonds, and equity and debt securities issued by other government related entities. These transactions are entered into under normal commercial terms and conditions. At the end of the reporting period, the Group holds such investments in equity and debt securities and has balances with these government related entities including accounts payable to brokerage clients.

The directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

### (b) Other related parties in respect of key management personnel

- (1) Other related parties in respect of key management personnel which have transactions with the Group are as follows:

Name	Relationship
China Galaxy Investment Management Company Limited ("Galaxy Investment")* 中國銀河投資管理有限公司	Note 1
E-Capital Transfer Co., Ltd. ("E-Capital Transfer") 證通股份有限公司	Note 2

Note 1: Mr. Song Weigang has served as the Vice President of Galaxy Financial Holdings and also as the chairman of Galaxy Investment since November 2016.

Note 2: Mr. Gu Weiguo serves as president of the Company and also as the non-executive director of E-Capital Transfer from January 2015.

\* These entities do not have official English names.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 41. RELATED PARTY TRANSACTIONS (Continued)

### (b) Other related parties in respect of key management personnel (Continued)

- (1) Other related parties in respect of key management personnel which have transactions with the Group are as follows:  
(Continued)

#### The Group's material transactions with other related parties in respect of key management personnel

*Expenses paid or payable to*

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Unaudited)
Galaxy Investment	<b>78,208</b>	56,245
E-Capital Transfer	<b>2,774</b>	1,811

*Accounts payable to brokerage clients*

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Audited)
Galaxy Investment	<b>15,629</b>	11,275

#### The Group's lease commitments with Galaxy Investment

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Audited)
The Group as lessee		
Within 1 year	<b>60,671</b>	110,768
Beyond 1 year and not more than 2 years	<b>5,340</b>	6,728
Beyond 2 year and not more than 3 years	<b>636</b>	1,589
	<b>66,647</b>	119,085

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## 41. RELATED PARTY TRANSACTIONS (Continued)

### (b) Other related parties in respect of key management personnel (Continued)

#### (2) Key management personnel compensations

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and other members of senior management.

The key management compensation for the six months ended 30 June 2017 and 2016 comprises:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Salaries, allowances, bonuses, social welfare and annuity scheme contribution	19,774	29,831

The key management personnel's final compensation packages for the six months ended 30 June 2017 and 30 June 2016 have not yet been finalized in accordance with regulations of the PRC relevant authorities. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the condensed consolidated financial statements of the Group.

## 42. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks. The most important components of financial risks are credit risk, market risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no significant changes in the Group's risk management processes since 31 December 2016 or in any risk management policies.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 43. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 43.1 Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis

The carrying amounts of the Group's financial assets and liabilities not measured at fair value approximate their fair values as at 30 June 2017 and 31 December 2016 except for the following financial liabilities, for which their carrying amounts including interest payable and fair value are disclosed below:

	As at 30 June 2017	
	(Unaudited)	
	Carrying amounts	Fair value
<b>Non-current</b>		
Bonds payable	32,826,320	33,633,426
Financing instrument payables	46,657	47,367
Financial assets held under resale agreements	12,486,765	12,783,246
	As at 31 December 2016	
	(Audited)	
	Carrying amounts	Fair value
<b>Non-current</b>		
Bonds payable	24,252,929	24,687,381
Financial assets held under resale agreements	6,989,078	7,089,954



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### 43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale financial assets:				
– Debt securities traded on stock exchanges	12,929,227	12,664,793	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	1,557,772	1,943,198	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges	7,887,563	6,877,971	Level 1	Quoted bid prices in an active market.
– Equity securities traded on National Equities Exchange and Quotations	6,853	6,853	Level 2	Recent transaction prices.
– Equity securities traded on stock exchanges with lock-up periods (Note 1)	1,350,562	2,938,322	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
– Other investments	10,212,461	10,355,637	Level 2	Calculated based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Other investments (Note 1)	168,810	1,526,165	Level 3	Calculated based on the fair value of the underlying investments which invest in listed shares with lock up periods in which the fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### 43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets held-for-trading:				
– Debt securities traded on stock exchanges	9,055,447	8,706,032	Level 1	Quoted bid prices in an active market.
– Debt securities traded on interbank market	8,879,973	10,891,076	Level 2	China Bond Valuation-future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
– Equity securities and funds traded on stock exchanges and unlisted funds (open-ended mutual funds)	7,755,324	7,520,663	Level 1	Quoted bid prices in an active market.
Financial assets designated at fair value through profit or loss:				
– Debt securities traded on stock exchanges	78,437	266,196	Level 1	Quoted bid prices in an active market.
– Equity securities and funds traded on stock exchanges	231	199	Level 1	Quoted bid prices in an active market.
– Structured deposits and wealth management products	757,119	717,056	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
– Equity securities traded on National Equities Exchange and Quotations	571,266	653,393	Level 2	Recent transaction prices.
– Other investments	459,935	608,703	Level 2	Based on the fair value of the underlying investments which are debt securities and publicly traded equity investments listed in the PRC in each portfolio.
Financial liabilities held-for-trading:	(268,595)	–	Level 2	Determined with reference to the fair value of the underlying securities.
– Securities lending				
Financial liabilities designated at fair value through profit or loss:				
– Equity securities	(120,127)	(349,923)	Level 1	Fair value is determined with quoted bid prices in an active market.
– Other investments	(149,699)	(363,579)	Level 2	Based on the bid prices of stock index in an active market.

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(Amounts in thousands of Renminbi, unless otherwise stated)

## 43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### 43.2 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	As at 30 June 2017 (Unaudited)	As at 31 December 2016 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial instruments:				
– Equity return swaps-assets	1,962	7,548	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Equity return swaps-liabilities	(51,764)	(37,226)	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Stock index futures-assets (Note 2)	2,777	2,980	Level 1	Quoted bid prices in an active market.
– Stock index futures-liabilities (Note 2)	(1,299)	(73)	Level 1	Quoted bid prices in an active market.
– Treasury bond futures-assets (Note 2)	1,009	9,203	Level 1	Quoted bid prices in an active market.
– Treasury bond futures-liabilities (Note 2)	(5,936)	(1,319)	Level 1	Quoted bid prices in an active market.
– Commodity futures-assets (Note 2)	1,255	535	Level 1	Quoted bid prices in an active market.
– Commodity futures-liabilities (Note 2)	(864)	(3,382)	Level 1	Quoted bid prices in an active market.
– Exchange-traded options-assets	12,226	447	Level 1	Quoted bid prices in an active market.
– Exchange-traded options-liabilities	(6,716)	(542)	Level 1	Quoted bid prices in an active market.
– Over-the-counter options-assets (Note 3)	118	482	Level 3	Calculated based on Black-Scholes option pricing model.
– Over-the-counter options-liabilities (Note 3)	(26,357)	(234)	Level 3	Calculated based on Black-Scholes option pricing model.
– Interest swaps-assets (Note 2)	322	–	Level 2	Calculated based on the difference between the floating income based on Fixing Repo Rate and the fixed income agreed in the swap agreements between the Company and the counterparties.
– Interest swaps-liabilities (Note 2)	(19)	–	Level 2	Calculated based on the difference between the floating income based on Fixing Repo Rate and the fixed income agreed in the swap agreements between the Company and the counterparties.

Notes:

- (1) The unobservable inputs to fair value is the discount rate for lack of marketability, determined by reference to the share price of listed entities in similar industries, ranging from 0.00% to 24.08% (31 December 2016: from 1.00% to 13.22%). The higher the discount rate, the lower the fair value.
- (2) As disclosed in Note 27, these derivatives are under daily mark-to-market and settlement arrangements. Accordingly, the net position of the stock index futures, treasury bond futures, commodity futures and interest swaps contracts was nil at the end of the reporting periods. The above analysis only presents the fair value of derivative financial instruments.
- (3) The unobservable input to fair value is historical price volatility. The higher the price volatility, the higher the fair value.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 43. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### 43.3 Reconciliation of Level 3 fair value measurements of available-for-sale financial assets

	<b>Available-for-sale financial assets</b>
Six months ended 30 June 2017 (Unaudited)	
At 1 January 2017	4,464,487
Total losses	
– in other comprehensive income	(303,258)
Transfer out (note)	(2,641,857)
As at 30 June 2017	1,519,372
	<b>Available-for-sale financial assets</b>
Six months ended 30 June 2016 (Unaudited)	
At 1 January 2016	3,348,450
Total losses:	
– in other comprehensive income	(463,430)
Purchases	2,272,499
Transfer out (note)	(932,361)
As at 30 June 2016	4,225,158

Note: These are equity securities traded on stock exchanges with lock-up periods and other investments holding listed shares with lock-up periods. They were transferred from Level 3 to Level 1 when the lock-up periods lapsed and they became unrestricted.

As the carrying amounts of over-the-counter options are immaterial, movement of their fair values, which was categorized as Level 3, during the period were not presented.

#### **Fair value measurements and valuation process**

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages external valuers to perform the valuation. The Group works closely with the external valuers to establish the appropriate valuation techniques and inputs to the model.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 44. EVENTS AFTER THE END OF THE REPORTING PERIOD

1. The Company has obtained CSRC approval on 11 April 2017 to issue corporate bonds of an aggregate amount not more than RMB11,500 million. On 10 July 2017, the Company issued the first tranche corporate bonds of RMB5,000 million with a tenure of 3 years. The coupon rate of these bonds carry at 4.55% per annum. Proceeds from these issues will be used to increase working capital of the Company.
2. The Company obtained Shanghai Stock Exchange approval on 16 August 2017 to issue private corporate bonds of aggregate amount not more than RMB20,000 million. On 28 August 2017, the Company completed the issuance of the fourth tranche corporate bonds of RMB 3,730 million. These bonds bear interests at 4.79% per annum and the terms are from 273 days to 1 year. Proceeds from the issue will be used to increase working capital of the Company.

